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THE PSYCHOLOGICAL
THEORY OF VALUE

BY THE SAME AUTHOR.

**THE LAWS OF SUPPLY
AND DEMAND.**

With special reference to
their influence on Over-Pro-
duction and Unemployment.

Demy 8vo.

THE PSYCHOLOGICAL THEORY OF VALUE

BY

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DEMAND," ETC., ETC.



BOSTON AND NEW YORK
HOUGHTON MIFFLIN COMPANY

1924

PRINTED IN GREAT BRITAIN BY THE WHITEFRIARS PRESS, LTD.
LONDON AND TONBRIDGE.

IN PIAM MEMORIAM

W. P. KER

VIRI NOBILIS ET SOCIJ JUCUNDISSIMI

PREFACE

Le raisonnement que vous en avez fait est si docte et si beau qu'il est impossible que le malade ne soit pas fou et mélancolique hypocondriaque ; et quand il ne le serait pas, il faudrait qu'il le devint, pour la beauté des choses que vous avez dites et la justesse du raisonnement que vous avez fait.—*Deuxième Médecin.* MOLIERE: *M. de Pourceaugnac*, Act I, Scene 8.

THE present study of Value is advanced in strict sequence to an earlier work, "The Laws of Supply and Demand," published in 1912, which, in many respects, is already out-of-date, yet will not bear republishing. Some repetition of what I have written immaturely before is unavoidable, but the more useful part of it can be organically imbedded in the Theory of Value. Logically, anything worth reading in the two books remains strictly in sequence, and the plan which underlies both together must be explicitly stated.

"The Laws of Supply and Demand" was a study of "economic behaviour." Although, as I have explained in the Introduction, I do not entirely agree with the school of modern psychology, which holds, rather dogmatically, that psychological studies begin and end with behaviour, there can be no doubt that the study of behaviour is a good beginning, and better, or worse, than deductive studies, according to the validity and completeness of the final body of knowledge which arises from it. Mankind will obviously not rest content with a system of conclusions in any science where both methods have not been applied to the full extent of their capacity for dealing with the subject.

From the study of economic behaviour three conclusions were drawn, none of them, however, with sufficient skill, force, or explicitness.

(1) That Demand, in other words, the body of Values, is the governing force in the economic world.

Rider : Demand and Value together, involving also the nature of Price, are psychological forces of the first magnitude.

(2) That Supply, having to follow Demand, has become deeply involved in the business of Selling, which has generally been, and still is, more expensive than Production.

Rider : The difficulties which confront the problem of Selling in the modern world arise from the fact that Production, in order to secure cheapness of Cost, has to be carried on at a great rate and in profusion, while, on the contrary, in order to secure and maintain Prices adequate to reward Production, the task of Selling has to be undertaken at a very slow rate, involving a need of larger Capital than that required for Production itself.

(3) That economic aims are essentially of the nature of moral aims. The contrary is unthinkable. If economic life be not a form of moral life the world is deeply and irremediably unfortunate. The preoccupying aims by which most people are governed are economic aims ; most people have time for little else. They also feel, instinctively, that one is not exclusive of the other.

Rider : It is no less true that the highest moral aims are economically the most efficient in a perfect or highly organised community. Economic efficiency demands essentially no different standard than the highest moral one. Just as in the political world the self-denying doctrines of Christianity broke the military force of Rome, so the highest personal ideals are destined, by the innate forces of human nature, to overcome the intelligent selfishness of individuals. This will not only be true in the most perfect form of economic organisation, but the tendencies in that direction at the present day are apparent.

The present work is a deductive study from these conclusions. It suffers from the inadequate manner in which the previous inductive work was done. In the present volume

some further inductive work has been attempted, but it is probable that it will have to be done again.

The scheme of the present work is as follows: After a general introduction, giving definitions, I deal, in the first part, with the Nature and Operation of Values and Prices, and further attempt to establish the Psychological and Multiple Theory of Value, which are one and the same thing, under different aspects.

In the second part, after an introduction touching on the history of the Theory of Value in the light of the Psychological Theory, I give a very brief sketch of economic progress, leading up to the consideration of the psychological nature of the four Economic Factors in Production, and the relative utility of their services and the proportional justice of their rewards.

The Modern Province of the State in Economics, which is lightly discussed in the latter portion of the book, tends to concern itself with the institution of Capital. As an institution, I believe the latter to have its sources from a fount of human nature secondary only to Value itself, which is akin to life. The order of Economic motives is as follows:

- (1) Life—from which spring Values.
- (2) Foresight for life—resulting in Reserves and Capital.
- (3) Multiplication or fulfilment of life—resulting in Exchange and Prices. But as all progress is effected in stages, and the stages are transitory, any complicated institution, such as Capital, even if it be fundamental, must undergo deep transformation.

While I believe Capital to be fundamental, I notice the changes that are already occurring in its character and draw three conclusions:

- (1) Capital, like all else in Economics, is psychological in character.
- (2) Its psychological functions must change, and are changing.
- (3) It will be long before the psychological functions of

Capital can be delegated completely to any common institution such as the State. Although the system of delegation of former capitalist functions has begun, and is proceeding, it tends quite as much in directions away from the central power as towards it.

The brief history of the Theory of Value is, to some extent, a digression, but is, perhaps, unavoidable. It is of interest, both as showing a tendency to lead the way to the Psychological Theory of Value and to confirm its validity. But it is of more importance as exhibiting very plainly the transitions of economic thought, as well as the evolution of economic behaviour.

The present stage of economic theory is a theoretical indifference from which it is my present aim to arouse the minds of young thinkers. Immersed, as they are now, in empiricism, they must, after trying all the short cuts to progress, return to renewed hard work in thinking out thorny problems. Perhaps this book may have the privilege of showing the depths of the difficulty, even if it does not immediately provide a way out and upwards.

Among the experiments we have to prove in the near political future we may expect many moral ones in both directions owing to the increased influence of women. In fact, in England the process has already begun. The Deborahs of Manchester have transformed our political system, and the Zipporahs of Poplar and Gloucester are questioning the validity of preventive medicine.

The economic world can no more dissociate itself from the political world than it can from the moral world. Democracy has now become a reality in a sense which has never yet been true in any country except the United States of America after the Civil War. The new power is bound to perpetrate a great deal of fumbling with the too considerable number of institutions, whose endeavours to control economic and political life overlap one another. Self-contradictory social aims will tread on each other's heels to secure fulfilment.

Society, according to Mr. Tawney, is sick because it is acquisitive. I should have thought it was characteristically spendthrift to an extent which will force it to become far more acquisitive in the near future than it is at present. But there are different ways of looking at Society.

To some small extent economic aims have been, and may be, dissociated from moral and political ones. A certain conscious purpose in this direction survives from old times and continues to do good work. It appears to me, however, that the old ideals of the *Laissez-faire* policy have exhausted themselves or lost their objects. The indirect consequences of their assumptions have not.

It is necessary for those, who consciously construct an economic policy to be steadily pursued among frequently changing, and usually confused, issues, to bear in mind that the population of the existing world can be exceedingly rich in a comparatively short period, whenever various sections can cease their disputes about the partition of rewards and work together on an organic instead of a mechanical system. The immediate path towards their aim should be :

(1) *THE ASCERTAINMENT OF VALUES*, in other words, the interpretation of ideal modes of living in the use of various commodities. The higher the ideal, the better will be the choice of objects for expenditure. Expenditure must not aim at reckless quantity, but at healthful and, if one may say so, spiritual enjoyment. We cannot live with so few goods as formerly on the shores of Galilee, but we can do with a great deal less than what is now considered necessary in the great cities of the world.

(2) A second economic aim, which accomplishes itself, to a large extent, spontaneously when the first has been developed, is what I have named before in the "Laws of Supply and Demand," the facilitation of the *GREAT EXCHANGE*,* which is the mutual and just requital of two approximately

* See pp. 144 and 266.

equivalent sacrifices by the satisfaction of two approximately equivalent wants.

The crude fact about Economics is that in the present stage of world-development, with its advanced system of productiveness, the sacrifices are much more easily ascertainable than the wants, both in nature and quantity.

The greater part of this book was written, and all of the first part, which has not been subsequently altered, before the publication, at the end of 1923, of Mr. J. M. Keynes's very able "Tract on Monetary Reform." I am encouraged to think that I may legitimately quote a note of his on p. 34 as confirming the validity of one of the main features of the Psychological Theory of Value, that the psychological groups of this theory are not groups of complete individuals, but groups of mental attitudes, so that the same man can, and does, belong to more than one group at the same time, in so far as he envisages different problems. Mr. Keynes remarks :

" . . . the interests of the same individual will often be those of one of the groups in one of his capacities and of the other in another of his capacities, etc. . . . "

It will be sufficiently evident that the material points, opened up in the second part of the book, need to be dealt with more fully and in more considered fashion than I have space for in the scheme of the present book. They also need more thought.

I hope before long to expand the scope and to fill in the outline here given of the psychological functions of the four factors in the creation of wealth.

I ought to add that the great length of the Introduction in both parts is due, chiefly, to my desire to keep within them and outside the substantial part of the argument, most of those allusions to, and quotations from, previous authors which could not be omitted by me. I tried, therefore, to put them all together, where they could be read with judicious swiftness or summarily taken for granted by those who do not wish to enter fully into that part of the subject.

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Finally, I desire to thank my friend, Mr. H. D. O'Neill, for a very important contribution in support of my own ideas of a future form of the State, to which we are already tending, whose functions will become more and more identified with insurance.

G. B. DIBBLEE.

DOVER, 1924.

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THE PSYCHOLOGICAL THEORY OF VALUE

PART ONE

INTRODUCTION

PART I.—DEFINITIONS

PSYCHOLOGY—ECONOMICS AND POLITICAL ECONOMY—WEALTH AND CAPITAL

We have more scientific and economical knowledge than can be accommodated to the just distribution of the produce which it multiplies.—SHELLEY : *A Defence of Poetry*.

THE title chosen for this book is inevitable in view of the history of the subject. No word but “psychological” would indicate the nature of a theory of Value, which assigns a common origin to Price with its intimate connection with the Cost of Production Theory of Value and to Value itself, which has been so nearly defined in the Demand Theory of Value by Jevons and the Austrian School. The psychological theory does not so much try to reconcile the tenets of the two schools as, by assigning to each its due place in a wider generalisation, to enter upon a new effort to succeed in including them both.

The use of the word “psychological” is so far unfortunate as to open an avenue for misunderstanding from the start, against which such precautions as are possible must be taken. The Psychological Theory of Value is not a proposition in Psychology but a study in Economics. Similarly, the term “Value” is not used in the comprehensive sense defined by recent philosophers, although there is nothing essential in its economic use which clashes vitally with the wider meaning lately come into popular importance.

PSYCHOLOGY

The relations which the Psychological Theory of Value has with the rapidly developing science of Psychology and all its technical branches can best be determined by reviewing a few definitions given by modern psychologists, and indicating which definition comes nearest to the scope of those psychological considerations, whose influence deeply affects the science of Political Economy.

The following definitions are chosen as roughly representative :

Wundt : " The science which investigates the facts of consciousness." In my opinion, economic actions follow many stimuli which never come into consciousness.

William James : " The science of mental life." Mental life itself requires strict definition. Like Wundt's definition, the phrase would probably not be held to include many subconscious and unconscious stimuli which result in mental and physical activities.

Dr. McDougall : " The positive science of the conduct of living creatures." This definition is not acceptable because it includes sensations and reactions belonging to the animal world which are only sub-economic and need not at present interest us.

Miss Brierly and others : " The study of behaviour." A progressive school of thought holds this view most strongly. The definition is useless in Economics, for the reasons given below, as including too much on one side, such as animal behaviour, and omitting on another a vast tangle of obscure motives to action which apparently die abortive without producing any such results as are commonly included under the name of " behaviour." In the idea of Value, it is not necessary to demonstrate " behaviour " in order to determine the economic validity of motives of this kind.

Dr. R. S. Woodworth gives, on pp. 17 and 18 of his " Psychology," two definitions, the latter of which, with some modifica-

tions, can be accepted as a starting-point for the idea of Psychology in Economics.

“The science of those activities of a living creature that are either conscious themselves or akin to consciousness” includes nearly all the special reactions of which Economics has to take account, but might be held to embrace animal, imbecile or constrained life.

The second definition is more fruitful. Recent studies in psycho-analysis, however, show that many deep springs of vital action are not only proved to be outside consciousness, but may be justly inferred to come also outside the description “akin to consciousness.” With the provisional addition of two words, chosen for want of better, I will adopt for my purpose, as covering all the ground and no more, Dr. Woodworth’s second definition :

“Psychology is the science of the conscious and the near-conscious and the *pseudo-conscious* activities of living individuals.”

It will be clear, therefore, that Economics, while acknowledging the debts due to experimental, comparative, and industrial Psychology, and gratefully using their results, does not, for the Theory of Value at any rate, require much more assistance than is given by the old-fashioned psychological methods which were predominantly introspective. In this connection let us examine a few current discussions in Economics and Psychology in order to ascertain exactly where we stand with regard to them.

It is, for instance, very useful to note the resemblance in the mental attitude of a prominent school of economists towards Value with the contention vehemently urged by the extreme “behaviourists” in psychology, that introspection should be excluded altogether as a method, not only practically, but in principle. The craving of the latter for physically ascertained phenomena only, as material for reasoning, is identical with a certain reluctance in the former to speculate on Value and its causes, so long as they have the objective results of its

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working in Price. With the economists I will deal later ; with the "behaviourists" I will take issue on two counts.

If the contention of the "behaviourists" were true, that observation was the only method to give valuable psychological results, our knowledge of human springs of action would be confined rather too much to a restricted set of cases less interesting than the average of human nature, the kind of "behaviour" * with which Political Economy has to deal. Their experiments are confined too much to the elementary, the abnormal, the subnormal, and the pathological. In other words, their aims do not go high enough to achieve the best results. Equally they do not go low enough in another sense to touch the more obscure springs of human nature, which only reveal their fruit to highly-skilled introspection.

Choosing the most conspicuous example in great literature of sublimated passion, as revealed in Dante's "Vita Nuova," and his allegorical view of erring human nature in the "Purgatorio," as interpreted by his letter to Can Grande, we have here human documents by no means negligible as an interpretation of the power of the "unconscious," as it is called, and of the possibility of its control.

At the opposite and practical end of the psychological scale we have the burning problem of the seller or economic disposer of goods to make his particular wares desirable to large masses of men, by ascertaining introspectively or by divination how best to appeal to some deep-lying need of his customers. The process involves an analysis of, and appeal to, the Unconscious Self. The hit and miss methods of advertising have long ago gone by the board, as they spell ruin, and skilled refinements of highly-trained intuition are at present every-day necessities

* In Political Economy behaviour might mean one of two alternative classifications :

- (a) The narrower set of prevailing motives and habits in trade ; and
- (b) The wider interpretation of economic habits which would include family life, and especially individual and family expenditure.

of commercial life, and far from being academic speculations on the vagaries of human conduct.

A matter of dispute in terminology very much allied to our economic problem of Value has been recently settled by custom in a sense which I should have liked to see otherwise decided. I think the authority of the late Dr. W. H. Rivers in favour of the term "Unconscious" as against "Subconscious" must be for the present accepted, although it is evident that the word is so completely negative that it must include a formidable array of psychological impulses reaching down to those of animals, plants, and who knows how low? How can we here obtain any assistance whatever in determining the nature of human beings? Still the physiologists desired rather to emphasise sharply the distinction between "unconscious" and "subconscious" than to meet any other logical need that suggested itself. The former word must, therefore, be employed as one which has acquired by authority a special technical significance.

A more difficult and more important controversy, intimately appertaining to emotional states and vital struggles, and therefore remotely to economic conditions, still remains unsettled, but I see no reason to choose sides. It relates to the famous James-Lange theory of the precedence of bodily conditions to emotional changes, a precedence which some may hold to be causative. I am content to take them as merely parallel manifestations in the Spinozistic sense of arising equally from the valid attributes of God, thought and extension or extension and thought, causation being referred to another pair of similar parallel phenomena.

Similarly I disregard, as coming into economic play, the special importance of the nervous system in human beings. Taking into account the sequence of action in Receptors, Adjustors, and Effectors, it is nothing to me whether by reflex action the central link may be cut out. I regard the economic effects as the same, whenever a mental or physical effort is the result, however it be achieved. As W. K. Clifford

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said long ago : " In a cat more messages may be sent from the sensory nerves to its paws which do not go through its brain than in a human being ; yet some reflex actions are common to both." To me, that is to my economic theory, the solely important point is whether the agent is human and active, and not whether the nature of the reaction is more akin to that of an animal or of a reasoning being. It is, in fact, exceedingly probable that the more pertinacious and powerful of our economic impulses have an origin reaching into a dim, dissociated past, in which it cannot be supposed that our human brain was completely developed.

Theories of Value, whether psychological or otherwise, are part of Economic Science, and, in fact, as many have thought, they constitute the central point of it. It is necessary, as a preliminary, to determine the nature of that science and the definition of the terms by which it is described. In neither of these problems is there at present complete unanimity.

ECONOMICS AND POLITICAL ECONOMY

While the word " Economics " has become fashionable, as a useful short form of the more correct phrase " Political Economy," strictly speaking, the former term should be held to describe a wider science excluding the predominance of Value, one condition of which, as we shall see later on, is the continuous certainty of all-powerful sanctions for maintaining contracts. There have been, and are, many places and long periods of history where these have not prevailed, such as barbarism, communism, war, temporary anarchy, and predatory or exploratory adventure.

ECONOMICS, therefore, ought to be more widely defined to include all these absences of regular contractual conditions which are generally denoted by the use of the word " political." Economics is really " the science of the regulated and unregulated relations of human beings engaged in the struggle for the material means of continued physical existence under all circumstances." The prevalence of Value is not predicated,

although it may fitfully exist. So, too, provision for future population may be contemplated but cannot be considered systematic.

It is useful to employ, however, the common form, "Economics," as a term affording a shortened alternative to the cumbrous but necessary classical name of Political Economy for that science which contemplates only such fixed political conditions wherein Values may be created and systematically maintained.

John Stuart Mill, in his "Essays on the Definition and Methods of Political Economy," has given very sensible attention to this important preliminary. He offers two alternative definitions :

(a) The science which treats of the production and distribution of Wealth, so far as they depend upon the laws of Human Nature.

(b) The science relating to the moral or psychological laws of the production and distribution of Wealth.

In both these definitions Mill is to be praised for accentuating before his time the element of human nature, but it is fair to criticise him for neglecting consumption in both definitions, and in the second for a weak verbal vacillation between moral and psychological, leaving us in doubt whether these be different names for the same thing or legitimate alternatives as the true subject-matter of Political Economy. Neither view is defensible, but the reference to human nature is a good starting point for the true definition.

"POLITICAL ECONOMY is the science relating to the PSYCHOLOGICAL FORCES and the PHYSICAL CONDITIONS, which control the PRODUCTION, PARTITION, EXCHANGE and CONSUMPTION of WEALTH." In the above definition-in-chief there are several terms or expressions which need sub-definition and explanation.

PSYCHOLOGICAL FORCES are evidently human or personal mental activities of a kind described in the definition of Psychology. They must be interpreted in the widest possible

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sense. Not only motives which lead to physical activities must be included, but the thoughts and feelings which tend in active directions, even when they are potential and not eventuating in activities. Further, room must be found for powerful mental or similar forces exerted in the economic sense, which never come into individual consciousness and yet are exhibited in mass reactions, such as collective opinion, and in even more remote and secondary activities whose nature only future study and research can fully reveal.

The **PHYSICAL CONDITIONS** contemplated in Political Economy are of two kinds. There are personal conditions consisting of variable human capacities, as distinct from active inclinations, although the two are intermingled to an extent which makes the distinction rather thin. A pronounced capacity leads to an inclination, and inclinations soon learn to create capacities, so that personal factors of this order may be viewed as agents or instruments, according to the way in which they work.

The material conditions segregate themselves more easily. They consist of portions or ingredients of the earth's crust and of creatures large and small living there which may be amenable to human control. It may seem an odd circumstance that the latter are probably the more important. A few individual animals, such as a racehorse, may have great Value ; cows and bees may be considered as intermediate creators of Wealth ; but the bulk of the active work attributed to Nature is due to the activities of micro-organisms converting unsuitable into suitable materials in the soil, in vats, and in reservoirs and receptacles. No doubt the minute activities of bacteria have each their pseudo-independent psychological counterpart processes, but it is customary and useful to regard their economic work only as subsections of human activities.

PRODUCTION is a term consecrated by use and the elaborate study of generations, but examination of the nature of modern economic organisation proves that it is no longer so

apt for its purpose as formerly. It is therefore, strictly speaking, more appropriately used as describing a period of history when the production of two objects of the same kind required approximately double the effort formerly necessary to produce one. Shelley's term, "multiplication of produce," gives a more faithful picture of modern industrial processes. However, the old term is not so inappropriate that we cannot let it pass.

The same cannot be said for the equally venerable word "distribution." It is easy to see now that the use of this term should always have been reserved for the physical distribution of produce and commodities by producers or their agents. I have not seen it remarked, what is very obviously the case, that its use, in connection with the sharing of produce, is really metaphysical in origin, implying a theocratic or supreme authority acting under impulses of justice, awarding to each factor of production its due reward in proportion to merit. Unfortunately none such exists. The industrial world has been fighting for three generations over theories of equity of partition, while there is no power, not even in the supposed all-powerful State, to distribute realised Wealth in any proportion universally recognised as ideally fair to all partners in industry.

PARTITION is quite clearly the term describing accurately the obscure struggles over justice in the methods of dividing created Wealth.

EXCHANGE concerns itself with the accurate determination of Values and their transference with ease and justice.

CONSUMPTION has only lately been regarded as worthy of consideration as a separate department of Political Economy. Even so, attention so far has been generally paid to it in the form of consumption for maintenance or enjoyment. Such treatment is wholly inadequate. Indifference to consumption must break down before the proper estimation of the psychological Theory of Value. In its early stages consumption is simply satisfaction ; but the nature of the satisfaction obtained differentiates itself speedily in directions which are decisively economic and far apart in their ultimate tendencies.

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The most obvious is the continuation of our individual life in varying degrees of fullness ; another is consumption for the avowed purpose of the better organisation of future production. Intermediate between the two forms of consumption, and partaking of the nature of both, are the immense sums devoted to the wage-labourer's maintenance. In as far as the wage-earner is regarded as an agent in the fruition of his own life, his expenditure must be reckoned as belonging to the first of the above forms ; as an instrument of further production he must be relegated to the second.

The necessity of the Reserved Consumption of Wealth, destined to become, or in the process of becoming, Capital, has been observed but is generally overlooked. The fact is obscured by the complexities of finance in modern industry, where sums of liquid capital are held in reserve by individuals, firms, and banks, without apparently being consumed. In reality, with the mental destination of Capital for specific purposes of production, or even as the general reserve of the community, the slow process of consumption has actually begun. It is, for instance, obvious that the provision of too small a reserve for the continuation of a productive process may well lead to complete and premature consumption and the destruction of the reserve.

WEALTH

WEALTH now remains to be defined, but, strictly speaking, this is impossible apart from Value, the nature of which is yet to be determined. It includes, we know, five or six categories, which fall, roughly, in two classes : (1) Natural and Fixed Wealth ; (2) Mobile or Realised Wealth.

(1) Of the first there are at least three kinds :

(a) Personal : consisting of the natural character and general habits of human beings, including their inherited or acquired talents, which are Wealth to the individuals or groups of individuals to which they belong, or to those who can call them forth on occasion.

(b) Natural : residing not only in the obvious form of land or stores of raw materials, but in less negotiable forms, such as climate, situation on trade routes, navigable rivers, harbours, and health resorts.

(c) Fixed Wealth proper : consisting of more or less permanent adaptations of Natural Wealth ; roads, canals, and railways ; organised economic machinery for indirect advantages, such as education, cultivation, or amusement ; specially developed political, judicial, and economic institutions ; public buildings, art galleries, and museums.

With the conspicuous exception of land, few, if any, of these sections of Wealth are easily assignable to individuals. They mostly belong to large or small groups of men, subject to fitful control. Nations and lesser dominions, municipalities and corporations, attempt a kind of ownership, where the cost of responsibility very often exceeds the tangible profit. Railways and other semi-public services offer, in various degrees, examples half-way between land and public property, where a limited power of obtaining profit is allowed to groups of individuals, subject to the overshadowing power of the State, which presumably supervises the wider interests of the whole community. The State also has to guard the indirect benefit due to the public as its own share of the reward for the grant to individuals of licences, special legal facilities, and the profits of a monopoly.

(2) Mobile or realised Wealth is Wealth of more or less high exchange Value, whose characteristic is that its owners are in possession of real opportunities of consumption for speedy enjoyment, or of reservation for future enjoyment, or of employment for purposes of production. These three uses provide a further classification.

(a) Wealth devoted to enjoyment ; mainly consisting of goods or money.

(b) Wealth hoarded ; a small quantity in our times.

(c) Wealth reserved and applied to production ; generally called Capital.

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Of these three classes, only the two latter need further explanation. Absolutely hoarded Wealth, consisting of medium of Exchange withdrawn from circulation and therefore not usually included in the definition of money, is rare except in backward countries, such as India and China. But there is prevalent an occasional and fitful form of psychological hoarding in the form of private cash reserves earning no interest, which really amounts to the sacrifice of one use of money. Timid people keep unnecessarily large balances in current account with banks, of which the banks, under a sound system, are obliged to make a conservative use. A retarded rapidity of circulation of currency is measurable as a considerable loss of wealth. For instance, it is reckoned that the proportion of the instruments of credit, based on currency, to currency itself is less than 3 : 1 in France as compared with the figures of 5 : 1 in the United Kingdom.

CAPITAL

CAPITAL proper, or "Wealth mobilised and reserved for use, or in the process of being used, for production," is a psychological entity dependent for its nature on the intentions of its possessor. It cannot, therefore, be fully defined except as the result of the determination of the nature of Value, any more than in the case of Wealth, of which it is a form. Other forms of Wealth determine themselves in their nature more immediately by their manner of use, whereas Capital, although largely determined by use, is still more specifically determined by the intention to use and to continue using. Even in the case of Capital committed to investment in Government stocks or private securities, the holder can generally cease his function of Capitalist without much difficulty or at some slight loss by selling his stocks or shares. His funds are *ipso facto* withdrawn from the general fund of Capital, since the funds of the buyer of the said stocks have to be withdrawn from other investments, either actually or potentially.

The well-known rewards of Capital in the shape of Interest

and Profit are the payment of the function of this intention steadily applied. They are defined elsewhere at greater length. Briefly they are as follows :

(1) Waiting : Postponing enjoyment or use of Wealth in various ways in order to secure funds for the "Principal Sum."

(2) Resolution : Bearing the risk of the loss of the "Principal Sum."

(3) Watching : To secure the return of the "Principal Sum."

(4) Assessment, classification and delegation to ancillary organisations and insurance funds of all minor Risks, beyond the prime risk of losing the "Principal Sum."

By this view of the psychological nature of Capital an answer is given to the historic question posed by M. Charles Gide, as to whether Capital is a transitory or permanent institution. The whole problem will be more fully dealt with later, but it is enough to say here that, owing to its psychological origin, the nature of Capital changes with economic progress. The owner of Capital performs to-day functions different from those required of him in early times. Perhaps it would be truer to say that his services tend to acquire less importance in the function of Waiting and more importance in the function of Watching, as industrial and financial machinery are gradually developed. In fact, psychological Capital is both transitory and permanent in function. In primitive times, Waiting and Resolution were the primary and almost the sole duties of the Capitalist, and demanded great sacrifice and force of character. It has steadily become more easy, and saving is an unavoidable concomitant of great fortunes. Watching for the return of the "Principal Sum" has become correspondingly more difficult under the growing complications of modern production.

The Assessment of Risk shows, by its extreme modern refinements, how difficult the latter part of the duties of the modern capitalist have become.

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The Watching to secure the return of the "Principal Sum" has become of overwhelming importance to the Modern State, a function requiring both will and concentration of attention to a degree only possible to individual owners whose whole interests are involved in the security of their private property. It is a psychological function. To enable it to be performed efficiently all minor risks must be assessed, classified, and delegated to professional organisations, so that the owner-capitalist can reserve his whole capacity for the duty of Watching alone.

INTRODUCTION

PART II.—DEFINITIONS (*continued*)

VALUE—PRICE—CONCLUSION

Reason is the enumeration of quantities already known; imagination is the perception of the value of those quantities both separately and as a whole.—SHELLEY: *A Defence of Poetry*.

VALUE

It is impossible to give a due appreciation of the vital weight of this definition without criticising the frequent earlier attempts in the same direction in order to indicate the extreme difficulty of achieving the right conclusion. Historically the position is quite unsatisfactory. While the classical writers admitted the central importance and asserted the unity of the problem, they were far from successful in solving it themselves. They had a tendency to wander round about the subject without coming to the point.

A new school, whose doctrines were fashionable in late Victorian times, began by splitting up Value in definite sections, and produced several definitions which were lost in their own complexity and obscurity. Although they laid stress on all the psychological aspects of Value, they handicapped themselves by not differentiating it from Price, so that it remains uncertain whether they considered that Price was a special form of Value or something quite different.

The temporary result has been to produce a modern point of view with a colour of indifferentism. Writers of this school, whose thesis is that the Theory of Value has no importance, show an inclination to content themselves with a study and discussion of the course of Prices, and the best recent work has

been done on those lines. Yet it is undeniable that the real basic difficulties of Economic Theory have been shirked in order prematurely to obtain results which seemed of immediate practical importance.

Before giving examples of these three groups of definitions, it is necessary to refer with due respect to the modern philosophic conception of Value. Also one literary attempt must be mentioned which has obtained great popular influence.

(1) PHILOSOPHIC AND LITERARY VIEWS.—Value in the philosophic sense resides in definite transcendental realities ; to obtain unity with these realities is the centre of our desire and striving. Value is not a special condition common to multiple forms, but represents conceptions of reality existing under ideal phases, such as truth, beauty, and goodness. Being absolute, and substantially beyond the reach of our utmost endeavour, the extent of our striving after them is not the measure of any of these ideal conceptions. Professor Alexander says that “ Amalgamation of the object with the human appreciation of it ” is implied in Values.

There is nothing in such a conception of Value which differentiates it, in essence, from the psychological idea of Economic Value. The latter does not reside in material objects, but is attached to them by human appreciations. The fact of the attachment of Economic Value to those objects is due to human belief that there is some quality in them identifying them as part and parcel of, or some approach to, an imagined ideal condition. The difference between Philosophic Value and Economic Value is not a matter of essence but of measurement. Philosophic Value is beyond reach and beyond measure. Economic Value is measured Value. The measure, as we shall come to see, is indicated by the amount of our effort or striving.

A literary view of Value, which has often been quoted as if it had some economic or other validity, is given by Ruskin in “ *Munera Pulveris*.” In spite of its obvious want of clearness, it cannot be passed over, since so accomplished an economist

as the late William Smart was largely influenced by Ruskin's ideal views. "Value is the life-giving power of anything ; cost, the quantity of labour required to produce it ; price, the quantity of labour, which the producer will take in exchange."

(2) LABOUR OR COST OF PRODUCTION THEORY OF VALUE.—There is a steady evolution of this theory from Petty to Mill and his followers, and during the whole of this period it was dominated by the metaphysical conception that the Value of an object ought always to equal the sacrifice required for its production. Obviously it does not. Nevertheless, for two hundred years, all economic writers, with the exception of Locke, returned to the problem of a Normal or Natural Value to which Exchange-Values ought, and in the long run would, tend to return.

Petty began it. "All things ought to be valued by two natural denominations, which is land and labour." Adam Smith, the moral philosopher, whose theories tend to metaphysical conceptions from beginning to end, essentially held this view, but with his incomparable common sense gave its expression a turn which brings it very near the modern definition of subjective Value. "The real Price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." Ricardo also, in his brilliant, intelligent way, limited his statement of the labour-cost theory of Value by the use of the critical word "relative," implying that his definition of Value applied only to those articles which were commonly produced by labour. "The Value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour, which is necessary for its production." As we know from Ricardo's letters, and from the general tone of his work, that he implied, as Petty did, that other active factors besides labour were responsible for production, and therefore helped to create Value, it is clear that he formulated, in the above words, a fairly complete statement of the full Cost of Production Theory of Value for all articles produced

under similar circumstances, measured, however, either by one another or in a limited standard, called labour, which was itself capable of being deemed a commodity, and therefore itself indeterminate, or, in a multiple standard, still more indeterminate.

Beyond dotting the I's and crossing the T's of Ricardo, J. S. Mill had nothing to add to the Cost of Production Theory except the doubtful improvement of omitting some of the qualifications. In fact, the completeness of his ponderous exposition, and its clever inversion by Marx, showed up the hollowness of the metaphysical belief that Cost and Value had anything in common.

Mill's celebrated Law of Value is neither a definition nor a logical statement. It concerns itself more with Supply and Demand than with Value, and does not determine the exact nature of either nor of the complete relations between any of them.

His more luminous statement elsewhere also falls short of a respectable standard of logical competence. "Value is a relative term. The Value of a thing means the quantity of some other thing or things in general which it exchanges for." There is no ratio between two objects except in a mind which measures them both. The study of the mind is, at least, as essential to the determination of Value as is a study of the objects. Obviously the quantity of some one thing for which the quantity of some other thing will exchange is the Price of the latter, expressed in terms of the former and *vice versâ*. That is not Value.

The long tale of work accomplished on the Cost of Production Theory of Value has not been wasted, since, from the psychological point of view, this theory comes near to affording a definition of Price. In fact, for all articles capable of reproduction, Cost of Production is the lower limit of Price. The psychological determinant of Price is the self-estimate of his sacrifices in production by the producer or his representative, the seller. The seller clings to this estimate with so

much tenacity that, in general, he imposes it psychologically on the buyer, thus bringing Value to equality with Price and creating Exchange-Value. It is, therefore, roughly true that Cost of Production tends to draw towards itself Exchange-Value-Price.

It is also more definitely true that no manufactured articles will long continue to be produced which do not return a reward sufficient to cover costs of production and selling costs, including reasonable profits in both cases.

It is convenient to mention here Marx's Surplus-Value Theory on account of its popularity and pseudo-scientific construction. Its author, who was incapable of original thought, had, in a very high degree, every other intellectual faculty at his command. His adoption of the current version of the Labour Theory of Value, and the logical conclusions which he quite legitimately attached to it, were decisive in proving its absurdity. Marx spent the last ten years of his life in an endeavour to work out a solid basis for his glittering superstructure, and any one who wishes to ascertain how he failed can consult the short treatise of Signor Loria, a more than benevolent critic.

(3) DEMAND THEORY OF VALUE.—The father of the Demand group is William Bailey, who, in his "Critical Dissertation on Ricardo," clearly enunciates the psychological nature of Value. "Value denotes, strictly speaking, an effect produced on the mind . . ." "Value, though spoken of as a quality, implies a feeling or state of mind which manifests itself in the determination of the will." Again he comes very near to the true definition of Price. "It is essential to Value that there should be two objects brought into comparison."

Jevons, who knew nothing of Bailey's fugitive work, rather generously conceded priority to a Hanoverian crank, named Gossen, but he may legitimately be called, himself, the real founder of the Demand or Utility Theory of Value, which had immense influence in Austria and America for a generation. I imagine Jevons, after originating the fertile conception of

Final Utility, exhausted his felicity in criticising Mill before he came to constructive definition, where he signally failed. "Value . . . means not an object at all but the circumstance of an object. Value implies in fact a relation ; but if so it cannot possibly be some other thing. . . . Value in exchange expresses nothing but a ratio." I have not, however, discovered from him what the objects may be between which the ratio is Value. He gets no further than the repeated statement, itself an important one, "Value depends entirely on Utility. . . . The final degree of Utility determines Value."

After Jevons, and almost contemporaneously with him, the most distinguished exponents of the Demand Theory of Value have been the Austrian economists ; but their influence, following a brief supremacy, may be said to be exhausted. The best that can be said for them is what Signor Croce says of some of the commentators on Shakespeare, that even the dullest German books awaken one effectually to the greatness of a problem, which a more accomplished work on a smaller scale does not always effect. Menger, Wieser, and Böhm-Bawerk, whose theories in detail we shall study later on, floundered very much in attempting definitions of Value ; but, at least they saw, as Jevons did not, how immense was the problem and what profound significance the right solution would have for the science.

Menger, whose work appeared side by side with Jevons, defined the Value of goods as the "importance which concrete goods . . . receive for us from the fact that we are conscious of being dependent on our disposal of them for the satisfaction of our wants." Surely all this is comprehended in the word Utility, and the definition leaves out any mention of Scarcity.

Wieser's best work is a laborious analysis of the conditions under which Value comes to be associated with goods, but he has no illuminating statement of the nature of Value. He opposes the idea of Utility to Value, saying that, when there is a contest between the two, Utility gains the day. He makes a great mystery of the disappearance of Value with superfluity,

while Utility remains. The true explanation is very simple. Since Value implies effort, and effort necessarily disappears with superfluity, the necessity of effort is not there to supply the conditions under which Value is constituted. He says that "The Value of a supply of similar goods is equal to the sum of the items multiplied by the marginal Utility," which is very much equivalent to saying of Value what is true of any total; such as that the sum of the weights of any total equals the number of items multiplied by the average weight, etc.

Böhm-Bawerk's strong point is the separation of the idea of Subjective Value from that of Objective or Exchange-Value. He has carried the study of the former farther than any one else, throwing discriminating light on its importance.

I cannot feel that Böhm-Bawerk deserves the very severe strictures of Professor Cassel on his work. He has given us, for the first time, one definition at any rate which will stand good. "Value, in a subjective sense, we may call the importance which a good is considered to possess with reference to the well-being of a person." He shows here that he sees, better than Menger, in what way, both in theory and in practice, an individual attaches Value to an object. It is because the object is to him an instrument which will, in his belief, contribute to a fuller and, for the moment and in a restricted manner, an ideal life for him.

Böhm-Bawerk's attempt to carry the same idea into the definition of Objective Value is a failure. It is, he says, "a relation of power or capacity between a good and an objective result." How can a good have power or capacity? Surely also, if by relation a ratio be implied, a ratio must be predicated only of similar measurable things. Where is the similarity of a good and of an objective result?

Smart, who was the patient interpreter and translator of the laboured Austrian treatises, came, in his brilliant little sketch on the Theory of Value, very near to weaving their separate discoveries into a system. The general indifference

with which his translations were received discouraged him in pursuing the subject.

He need not, for instance, have accepted as final Böhm-Bawerk's rather appalling confession, that the two conceptions of Subjective and Objective Value, over which the latter had expended needless elaboration, might indeed spring from a common root, but that any attempt to combine them in a more universal conception would be futile and shadowy. Smart might well have accomplished the task himself.

(4) MODERN GROUP OF INDIFFERENTISTS.—It is not surprising that the bankruptcy of the fragmentary Austrian theories should lead to a reaction tending to a discontinuance altogether of any further attempts at a comprehensive conception of Value.

This attitude is shown most clearly by Professor Cassel, who rightly saw the formidable effort involved in the problem but refused to grapple with it. He caustically gives his view : " Value is a somewhat vague concept . . . whenever Value means anything else than Price, it refers to psychological processes, to intensity of feeling or will. But these forces, though indeed very real, are not capable of objective measurement." This is a near approach to the Psychological Theory.

Dr. Birck goes even farther in a positive direction, to make a dramatic withdrawal. " Value is the relation between the human desire to have a commodity and the difficulty of obtaining this, compared with our desire to have another commodity and the difficulty of obtaining that thing."

In the first half of this statement Dr. Birck approaches rather nearer to defining Value than Menger, but fails for the same reason : because he does not get behind the want itself, nor realise that the human agent is essentially striving through the apparent object for the remoter satisfaction of filling in a gap in the set frame of his imagined economic plan.

In the two halves of the definition together, which are to some extent redundant, we can almost see a description of one side of the definition of Price, without, however, taking into

the conception the corresponding psychological condition of the seller.

While going very far in the direction of a psychological definition of Value, Dr. Birck, almost on the same page, beats a general retreat, as if he were detected in committing an offence. He concedes to prevailing opinion as follows: "As however, the accepted idea of Economic Value is a proportion of exchange between the goods, we cannot apply the word Value to something which is actually a state of mind without creating confusion." The phrase sounds almost like a recantation before the tribunal of public prejudice.

So much for the indifferentism of the expert, a well-known phenomenon of quiescence in the history of any intellectual pursuit. At present the prevailing use of the unfortunate term, "Marginal Utility," whose validity I shall examine later, veils an undeniable temporary relaxation of activity in the pursuit of theoretical economic knowledge. Yet an arrest of advance in one direction does not involve total inactivity. Practical watchwords are prevalent. The needs of the world are instantly so great that rapidly available fruits of technical studies are avidly required. The indifferentism of the theorist is no more than an indication of intense preoccupation in other business, like an injunction to "brush by" hung over an American desk.

A similar indifference to exact definition is apparent in the writing of a financial expert. The brilliant Mr. Hawtrey, of the British Treasury, in the course of his discussion of the Monetary Reconstruction of Europe, writes that "Value is a relation, and the Value of a monetary unit can only be expressed as a relation between it and the various forms of Wealth. A Price expresses the Value of a commodity relative to the unit, and the Value of the unit relative to a commodity is expressed by the inverse of a Price (P^{-1})."

It is clear here that the writer is attempting to confine his language to a description of simplest real forms, and yet he speaks of Value as the relation between two objects and not between two feelings.

There are not two relations here, but three ; the human relation towards a named commodity is one ; the human relation towards a unit of money is another ; the objective relation between two subjective relations is Price, which is the third.

(5) PSYCHOLOGICAL DEFINITION OF VALUE.—Value is, without doubt, a psychological phenomenon. In its common form it is held to imply a relation between a man and an object. It is not, however, a simple relation. It is, in fact, extremely complicated, physically, psychologically, and morally. Here the term “psychological” is held to be a bridge between the physical and the moral, although, if strict dualism be insisted upon, beside extension and thought or matter and mind, no third term has any validity. Yet, as a matter of language, Value can be adequately defined in three, or perhaps four, ways.

(a) Physically : Value is a human effort showing a positive resultant of energy caused by the superiority of desire for well-being in relation with an object, involving a state of tension, over inertia, which is desire to escape tension as painful.

(b) Psychologically : Value is such a degree of superiority of force in an individual of that form of response to stimulus, termed sensation and reaction,* involving mental relation with

* The terms “sensation” and “reaction” stand here as representative of all sequent effects.

The primary reaction to sensation is probably the formation of an instantaneous visual image of the object, amounting to perception or imagined perception, followed by cognition.

The secondary reaction to sensation, after perception and cognition, would be an instinctive judgment of the respective attitudes of Self and Object, terminating in the completion of the visual image by the conception of the said Object as part of the Self, or, in other words, in possession and under permanent control.

The tertiary effects would strongly resemble the team-work of trained nerve centres adapted to find various methods of satisfying the deep-seated, persisting tendency of the acquisitive instinct by snatching or stealing, or obtaining the desired object by persuasion or negotiation.

See note at end of Chapter IX. on the Mental and Material Elements of Value.

an object and a state of tension in the higher centres, over the natural tendency to maintain well-being by conservation of the internal stored energy of mind and body, as to result in positive mental or physical action in order to acquire or control it.

It may be asked here, what can be added to the physical and psychological definitions of Value by considering them from the moral point of view? It must be answered that the new factor introduced is the moral judgment which identifies the well-being of the self with the possession of the object. This judgment is a mental act setting in motion complicated physico-psychological processes of memory and association within the brain, so that the resulting state of tension is far from being intelligently treated, if described only in scientific terms. It can best be elaborated in moral terms, since the process implies delicate comparisons between different images of states of well-being. The moral definition may legitimately include a more complicated statement of facts than either of the other two. While it has the advantage of being able to take for granted much which, in scientific language, must be exactly attempted in the way of description, it can also use immense reserves of refinement inherited from the spiritual and philosophic experience of the ages.

(c) Morally : Value is the human perception in an object of some positive relation of that object to a general vision of fuller being, whether physical or moral or both, resulting in a positive mental or physical activity, or both, in the direction of acquiring possession of it or control over it.

There is now nothing wanting to complete the full economic definition of Value except to include some statement of a politico-economical system, which contains such conditions as are necessary to the creation and maintenance of Values and to the promotion of free exchanges.

(d) Politico-Economically : Value is the double affirmation by the individual through desire and effort within a free and stable economic sphere of the identity of an object with his

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conception of a fuller and higher life, and of the necessity of his acquiring or controlling it.

In this definition some important terms must be explained. The vital word here is "double," as is apparent from the moral definition of Value. The Agent, in valuing an Object, must make the positive effort of judgment and self-identification with the Object by desire, and must follow it with the positive effort to acquire its possession.

Double affirmation of self-identification by the Agent with the Object is the essence of Value. If either affirmation be wanting there is no Value. A single affirmation of desire without effort is an Alnaschar-affirmation—a mere day-dream—belonging to a well-known order of impulse leading to Narcissus-life. A single affirmation of voluntary effort without desire is unthinkable of a conscious individual while sane.

Yet there is another form of single affirmation arising through superfluity of the objects desired. In that case, by the fact of superfluity, effort becomes unnecessary and Value consequently disappears. It results that, with a complete understanding of the nature of Economic Value, the apparent Paradox of Value, so much beloved by Proudhon and Wieser, presents no difficulty.

Desire and Effort need close examination and comprehension. In the complexity of economic life desire is, to some extent, an effective effort, and the desire of many persons for objects difficult of attainment increases by conscious and unconscious community of feeling, as also by emulation, the effort put forward by others who are in a position to obtain the generally desirable objects. In brief, the active effort essential to the determination of Value may often be no more than a mental one, and very often an apparently inadequate Value may have some indirect effect, as we shall see in the chapter on the Operation of Values.

The Economic Sphere is the whole world, as we know it, excluding only such portions of it where the conditions neces-

sary to economic Value do not prevail. Economic life must be free and stable or the validity and maintenance of contracts cannot be secured. Values will then appear and disappear without order or sequence.

Fuller and Higher Life do not represent two opposite qualities of life, but, rather, degrees of progressive existence. The prevailing economic struggle encourages, for most of us, an undue aim at fullness, if not for ourselves yet for our children. Fullness is generally mistaken for, or preferred to, elevation of aim. It represents a round-about path to universal experience and broad intellectual culture. The vast numbers of those who fall by the way are denoted by Spinoza as the victims of "inadequate ideas."

Finally, the word "Necessity" requires close attention. In the three earlier definitions of Value in its simplest form, regard has been paid to the difficulty of acquiring an object only in a subjective sense. All outside difficulties were there estimated as coming through one door into consciousness in order to reinforce inertia. When, however, in the Politico-Economical definition, a world was presented to us, it became evident that the inrush of new difficulties must be taken seriously. The effort required to gather an apple, to root up a tree, to sow an acre of land, to build a house, to make or buy furniture, or to acquire a Leonardo, all present progressive stages of complication, amounting in the end to a total so great as to reduce the initial step of overcoming inertia to a mere trifle. It is these accumulating instalments of difficulty which bring the individual face to face with the problem of Price. A man in a civilised world cannot make everything for himself. He has to acquire the larger portion of his goods by Exchange.

PRICE

Price has never expressly received the attention of Economists to the same extent as Value, except from those writers who have confused the two, and often defined the one in an

attempt to define the other. The most conspicuous instance of this confusion is the celebrated attempt of Adam Smith, quoted above: "The real Price of everything . . ." where he names Price but comes nearer to the definition of Value.

Bailey, on the other hand, in describing Value, almost succeeds in giving an accurate definition of Price. "It is essential to Value that there should be two objects brought into comparison."

The involutions of Price are considerable and, at first sight, it may seem even more complicated than Value. The idea necessarily imports a second individual, or group of individuals, into relations of opposition with the first single individual or group, whose psychological intention to acquire an object constitutes Value. As a consequence, another single composite psychology has to be taken into account. For three reasons, however, the determination of the nature of Price is an easier task than the other.

(a) In the first place Price is itself a Value, and, when once the latter has been accepted as a psychological phenomenon, three-quarters of the journey towards ascertaining Price has been covered. The differences between Value and Price are not differences in essence, but differences in circumstance or external conditions, and chiefly a difference in time. It must be remembered that Price is a Value to both individuals who are taking the opposite points of view in making a bargain.

To the buyer of a watch Price is the relation between the Value of the watch to him and the Value to him of £20. In this case, not £20, but the Value of £20 is the Price of the watch to him, because £20, with its possibilities, is in his pocket, while the watch is in the hands of the seller. In the buyer's mental process the Value of the £20 in his pocket remains steady, or presumably so.

As a fact that £20 probably does not really make a cold mental picture of money to him at all, but of something quite different, of a holiday at Southsea, or of any one or several

of the great group of his alternative wants. These items, or groups of Values, have at home an approximate equality in his mind ; still, in the presence of the watch they may fade into the background as the desirability of the watch rises up into overwhelming prominence. When the Value of the watch reaches a nominal equality in his mind with that of £20 the bargain is made ; this equality, however, is nominal, not real. No purchase is made without the Value of the object bought exceeding, for the moment at any rate, the Value of the sum of money or equivalent expended. Note also that the surplus Value of the object over that of the equivalent must be appreciable and may be infinite.

To the seller Price is a relation between a Value roughly equal to the cost of the watch to him in expended effort and the Value to him of £20. The seller is fortified in his naturally weak position by two facts : his indifference to the possession of one watch over another, of which he has usually many, or can get them ; also by the custom of fixed prices, by which he is bound. I have known curio-dealers, with unmarked prices, who remained poor because they mentally over-valued any article which a customer proposed to buy.

The difference is a time-difference, and partly also a difference of respective attitude, because the seller knows the cost of the watch to him and names the £20, whereas the buyer does not always know the Value of the watch to him, but accepts, generally, the estimate of £20, which he learns from the seller. Fixed and stated Prices are the rule in modern business for retail sales, where the final seller comes face to face with the actual buyer for final consumption.

(b) In the second place there is a tendency in modern business, which, by the way, is not absolute, for Price to be single and Value to be multiple. There are many buyers at various Prices, but Price is usually fixed by its time-decided nature at or near the Cost of Production + a reasonable margin of selling-cost and profit. Any Price to be a real Exchange-Price must meet a corresponding Exchange-Value, because

otherwise no transaction would take place. Exchange-Value and Exchange-Price both equal one another and constitute a Value-Price.

(c) The third reason arises from the historical difficulty of ascertaining the true nature of Value. The investigation of Values has often been confined to Exchange-Values, which equal Prices and are Value-Prices. The history of Exchange-Values is the history of Exchange-Prices, and, as the preponderating mass of statistics in the world consist almost wholly of past Prices, the investigator of Prices has ample material to work on which the investigator of Values has not.

In the present Introduction, no further analysis has been attempted than is necessary to determine a reasonable definition, since the true nature of Price cannot be ascertained until further work has been done on the nature of Value in the chapter devoted to the subject. It will then become clear that Price psychologically is a tertiary Value, ranking after primary Value for consumption for life and enjoyment; also, after secondary Value for Reserves and Consumption for Capital. It is only after these psychological processes are complete that the special Values appear which exhibit the true nature of Exchange-Values and become equivalent to Prices.

Value is analytically more important than Price. It is, therefore, better studied simply and singly. Prices, on the other hand, being clothed in concrete forms by the machinery of commerce and the use of a Standard of Value, are most conveniently studied in the mass. Price can be well described as a comprehensive and contingent idea depending on the more intricate nature of the simple and single Values to which it is opposed. A working definition may be :

“Price is the seller’s estimate of the sum of the sacrifices undertaken in producing and marketing a material object to which Values may be attached.”

It is interesting to notice here that Price is wholly dependent on Value, and that Exchange-Price is determined by Exchange-Value. In other words, Demand, and not Cost of Production,

governs the real level of Value-Prices. But, as we saw above, Cost of Production determines the lower limit of Price in all articles freely capable of production and reproduction. It is at this point that the psychology of the seller comes into play. He produces and sells in order to make a living, and a decent living he must make in his own branch of business or, unless he is a Communist Government, he will give up his pursuit for one more profitable. Extending the definition of Price to suit the conditions of a politico-economical world, I think the following definition, which I have given before, will cover the ground without bringing in the word "Value," until the nature of the latter is more fully understood.

"Price is the measure, stated in terms of Exchange, of the equivalent required by the seller, that is, the producer or his agent, for the sacrifices directly or indirectly incurred in producing and bringing a commodity to the market" ("The Laws of Supply and Demand," p. 277).

CONCLUSION

In the earlier attempts to come near to definitions of Wealth and Capital in the last chapter, it was indicated that the ascertainment of the nature of Value would throw light on everything of the nature of Wealth. It is clear now that men's opinions of desirable objects largely affect the Value, and also the Utility, of the latter, Utilities reacting on Values. Wealth of individuals chiefly consists of items which can be catalogued, as having exchangeable Values, and has up to a certain limit, an indefeasible character. Yet even in private Wealth it is abundantly clear, by many incidents in common experience, that Wealth largely disappears with the decay or disappearance of its owner. A break-up of a household, an estate, or a firm, which has been prosperous as a going concern, means an immediate loss of Values; a loss which is not merely apparent, but real. Capital especially may be destroyed on a wholesale scale by accidental vicissitudes of business, and provision against such a collapse of Values is the chief duty of

that method of providing for the future, which is designated under the heading of depreciation.

What is true of families and firms is also true of larger corporations. An instance in point is the collapse of the Values in the great railway system of the Grand Trunk in Canada. The reader interested in Values can read the rival opinions of the Canadian justices and of ex-President Taft. Without knowing all the special circumstances of the case, or how far the tangible assets of the railway were wasted by bad management, I incline to the opinion that, on the point of principle, Mr. Taft was right. What destroyed Values in the Grand Trunk Railway was a general policy of undue expansion in the country at large rather than special miscontrol by the leaders of a particular corporation.

In the wealth of communities Values are particularly of a psychological character. Roads and favourable localities, and public amenities, are valuable or not as they are freely used, and their use depends on habits and opinions. An industrious and contriving small nation like Belgium, with its magnificently planned railway system, doubles the real Values of its national public Wealth by assiduous use. On the other hand, a nation with an evil government can have vast public utilities destroyed by a stroke of the pen in a single night. Even a suspicion of the prospect of misgovernment can lower the Value of existing Wealth and prevent the creation of new Wealth. What is true of Wealth in general is still more true of that delicately poised and closely watched institution known as private Capital. These changes are not a matter of illusion but of serious reality.

As a preventive remedy against general collapse of this nature, what will be the aims which a truly enlightened modern democracy should wish to be pursued by its government? They may be summarised in the general policy of keeping a free field open for the growth of Values and the maintenance of stable conditions in justice, currency, and ample opportunities of rapid exchange. The growth of real Wealth is a

matter of individual psychology, by the ascertainment of true Values, by the right selection of material objects for personal development, by generous aiding of one another to further these ends, and by due exchanging of special advantages. To these general results the highest characteristics of personal character render the greatest economic contribution, although this result is not conspicuous on the surface.

“ THIN CUM RIC ”

CHAPTER I

THE NATURE OF VALUE AND DEMAND

οἶον τὸ γλυκύμαλον ἐρέυθεται ἄκρῳ ἐπ' ὕσθῳ
ἄκρον ἐπ' ἀκροτάτῳ λελάθοντο δὲ μαλοδροπῆες,
οὐ μὰν ἐκλελάθοντ', ἄλλ' οὐκ ἐδύναντ' ἐπίκεισθαι.

Even as the sweet apple glows red on a topmost bough, topmost on the topmost bough of all; and it hath gone unmarked of the apple-gatherers—nay, not unmarked, but they could not reach unto it.

SAPPHO, 50 (*Pomtow*) = (*Bergk*), 93, 94.

IN these lines is better expressed the idea of elementary Value than in any paragraph by an economist. Desire; effort, but insufficient effort; continued longing; idealisation. Of these three, perhaps four, stages it may be said that the Stuff of Value is made. They are fit subjects of study for the poet and the psychologist. They have not been considered worthy of notice by the economist, who, hitherto, has deemed no Value to be intelligible until it became at least an Operative Value, and subsequently an Exchange Value, a progression which is elaborately treated in a later chapter. Of the nature of Value it is a significant feature, that longing increases with deprivation, whenever a conspicuous mental image of the desired object has been secured. Strong elementary feelings derive their power from their origination in what is known as the Unconscious Self. They are undoubtedly subject to the capacity of being transferable from mind to mind, both by sympathy and antagonism, in a manner which is foreign to consciousness, and, as we are occasionally made aware, in contradiction to the trained thoughts and acquired habits prevailing with us in our more ordinary moods.

In spite of a valiant effort to tie down Value, psychologically and economically, within the four corners of a definition, it is

idle to deny that there is something within it which escapes such a limitation. The idea possesses in the human mind too much of power and colour to endure being placed within the gloomy square of reason, either by means of measurement or by having its essence and conditions reduced to known terms. It is an offspring of the spirit. Of some qualities in it the poets alone have a vision. It cannot be wholly divorced from much that is very high and something that is very deep in human nature. It is not coincident with moral effort, but it is inextricably entangled with it.

If we strip bare our economic conception of Value and pull our definition to pieces, what, then, do we find in it to give it importance and human interest? We find that the psychological force on one side of our opposition of forces differs from its opponents not only in amount, as giving a positive surplus, but also in quality and in origin. The positive psychological force resulting from the tension of the brain must have physical forces at its service in order to overcome, in a physical sense, the physical internal force of inertia, as well as those complex external forces combining with it, which are included under the term "difficulty of attainment."

In analysis, however, the positive psychological force using the physical forces is more interesting in its mental aspect than in its physical. An animal eats food, or so we usually assume, under the physical compulsion of hunger. A man, in order to make his act an economic act—*i.e.*, one coming within the scope of our discussion—must obtain and eat food for the purpose of carrying on a life about which he has some sort of definite opinion.

That opinion, or estimate, is a moral one, or possibly something, at most, only a little below it and in the same category of thought. Every economic act is a moral act in a double sense. It not only stands in a definite order of possible activities of a certain compulsory character—production, saving, expenditure—within the realm of choice, and subject to comparison with other activities, as contributing, more or less

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immediately, to a final moral purpose ; it is also an elementary moral act as affirming or denying life and a kind of life.

Value contains implicitly nothing less than the whole array of forces of our moral, emotional, and conative nature, directed in some degree into a particular channel by our relations with a particular material object. Therein lies the reason for our wanting trivial things strongly and important things weakly. Therein also lies the cause of our wants being subject to deception both by ourselves and by others. We see in the desired object always something beyond itself, a pebble in the colours of our designed mosaic of life, one more square on the chart of our projected human activities, one note more in the glorious combination of the many rhythmical existences, which we suppose ourselves from moment to moment to compose.

Inchoate and kaleidoscopically changing conceptions of this sort lie behind and determine the humble Values of our pedestrian imagination. Psychologically the visions are the reality and the objects themselves the accompaniment. It is evident that the classical economists and their followers could not arrive at any serious interpretation of Value so long as they divorced Political Economy from Morals and the Imagination.

From this imputation Adam Smith must be excepted. He wrote before the time which is usually styled classical, and he was primarily a moral philosopher. His writings about Value have a metaphysical ring, as indicating that Value was a moral reward, of which a man might be unjustly deprived, which, nevertheless, was his due. He really had in mind Price, which should be the return to the producer for his effort.

During the period which is properly called classical in the development of Political Economy, two weighty preoccupations connected with political philosophy tempted the writers of the new science to avoid dangerous complications. One was to keep themselves clear from Rousseauism, which pictured natural man as a creature with ideal attributes ; another was the appalling spectacle of the new terror, arising out of the controversy

between the elder Malthus, a disciple of Rousseau and Godwin, and his brilliant son, whose "Essay on Population" appeared in 1798, nineteen years before the decisive date of the publication of Ricardo's "Principles."

Malthus's essay engaged a portentous amount of attention, as well it might. The seriousness of the practical danger, which threatened to affect the future of the world within a historic period, alone was enough to arouse alarm; but there was also the greater question of principle involved, which had to be faced. Was the number of souls eternally created to be determined by the question of food? It was not unnatural that economists, who desired a certain limited freedom for their discussions, should seek to shut off their field of thought from the danger of being drowned in theological controversy, and perhaps overwhelmed by the odium of some political and social stigma. At any rate, morals and political economy were for a time successfully described as mutually exclusive.

In the intermediate period came the pathetic endeavour of Ruskin to bridge the gap in his emotional way. Ruskin had an "animistic" conception of Nature. He was constitutionally incapable of distinguishing between an agent and an object. When he wrote that "Value is the life-giving power of anything," his imagination was inverting the solid order of Nature and the work of God. Unlike Shelley, he was belittling instead of ennobling the human spirit. For all his merits, a writer who was apt to conceive of water as being poured down a throat by a fountain, or of oil and wine as being accompanied always by a subservient Samaritan, had little business to thrust his gaily flashing oar through the side of our labouring galley.

Jevons, with the Austrians, reintroduced human nature, but not morals, into the idea of Value, yet they both failed through want of completeness. Jevons had the passionate conviction that everything resembling Value should be mathematically measurable and, if not absolutely yet relatively, brought into scale. Still, for reasons sufficiently clear, as we shall see in a

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moment, even proportional measurement of Values is impossible.

The Austrians had juristic rather than mathematical pre-conceptions in determining Value. Their indifference to pure moral issues resembled that of a lawyer. In the seven reasons given by Wieser for which mankind attaches Value to a commodity, he never mentions the conception of a higher life, which, for me, lies behind the purchase of a match or a penny paper.

While the Austrian school thus stopped short in their idea of Value at mere Want, their followers in America, of whom Dr. Anderson is a good spokesman, attribute the determination of Values to the Social Mind. A great step forward is made here, because the Social Mind concentrates on broad issues and moral progress. It has also intimate relations with publicity and other methods of creating Values. In fact, if we knew more about the Social Mind, the conception might give a complete solution of the problem of Value.

The present state of our knowledge is not sufficient for this purpose. We know now that the Social Mind is composed of individual minds, while it is different as a composite body from the sum of its separate parts. It is probable that the best immediate path for the comprehension of Social Values lies in the correct observation of the nature of individual Values.

Value, defined as the desire and effort of an individual or individuals in a certain direction, can be held only to cover that kind of Value or Values which must be described as elementary, most of which are far from being of the same order of Value as those Values familiarly known as Exchange Values, namely, that degree of Value which finds its equal in Price. Exchange Values must equal Exchange Prices and become Value-Prices.

A new question of the greatest importance arises about Value. Simple Value implies any effort in addition to desire. Exchange Value means effort determined by success in meet-

ing Price. In between the two extremes, which differ quantitatively in degree of effort but not in kind, what intermediate stages of Value are to be found and what criterion have we enabling us to separate them into orders or classes ?

The first fact to be observed about elementary Values, or simple Values as they had better be called here, is that, while most of them are weak singly, *ex hypothesi*, in the direction of capacity to pay, if not in the desire to have, yet together they constitute in opinion a force of some magnitude, forming what Dr. Anderson called the Social Mind.

Some have implicit in them, even in their simple form, great potential vigour. We are all familiar with the elemental forces of the career of a self-made man, such as, to take a literary example or two, the Mayor of Casterbridge of Mr. Thomas Hardy, or Silas Lapham of Mr. W. D. Howells. In these men, and many others of the same kidney, the output of ability and energy is probably greatest at the outset, or early in life, when their capacity to obtain their desired Wealth by exchange is not high. Yet their elementary Wants and Values have a driving force behind them which, in time, will carry their Values to fruition without fail. They and their wives are the leaders of the Social Mind in all substantial Wants, and it is a mistake to underestimate the reality of simple Values in minds and characters of great energy and tenacity.

A curious phenomenon results which is easily observable in the sphere of social ambition. It has not been remarked upon previously to my knowledge. It is not the rich who make great Values, although they pay the high prices. High Values are rather the effect of the driving ambitions of the energetic and enterprising poor, who crave for some ideal of life, visualised in objects not always suitable for the purpose, with so much determination that they devote the enormous and patient pertinacity of their lives to securing them.

Values of this kind are not as yet competitive. Competition in the theory of the Classical School was, like Issachar, a strong ass crouching between two burdens. It had to do its

natural share of work to explain the emergence of high Values in a time of scarcity, and an undeserved quota of toil to account for the fall of Prices during a time of abundance. It appears as the name of a force, as, for instance, in Mill's "Law of Value," while no one stops to explain in what way it is a force, or why it should act sometimes in one direction and at other times in a sense precisely opposite.

Competition is not a force, but the phenomenon of a force, and the force does not act in both ways. The force is a Group of Values rising into effectiveness at a certain stage and into violence at a later one, falling away and subsiding to nothing under a totally different set of circumstances when there are no counteracting difficulties to be met. It is important to remember that the force or forces act only in one direction.

Competition arises from the operation of the force inherent in a group of Values rising to meet an insufficient Supply. The group of Values is Demand. Competition is the assertion of effective Demand against inadequate Supply. When Supply is abundant all Demand is effective, effort subsides and Values disappear. The competition of sellers is not the rise of a force, but the symptom of the sinking of a force—the creaking of a machine when the engine which is driving it begins to run down. Without the moral certainty, under ordinary circumstances, of the recurrence of Demand it would be difficult for the sellers to keep their machinery going. No positive operative force exists on which the group of merchants constituting Supply can rely to reinvigorate Demand when once it has naturally disappeared for good. The discovery of a pit of fine diamonds about the size of the dome of St. Paul's would send De Beers into liquidation.

The occurrence of competition is the critical phenomenon announcing the transformation of Simple Values into Operative Values, and, further, into Exchange Values. The process is as follows: A certain number of capable Values successfully assert their claim to a partial validity, as Operative Values, by coming into the field of active competition. Among the

claimants to validity a certain proportion of the most efficient are selected by matching them with corresponding Prices, thus becoming Exchange Values. The rest are left unsatisfied, but not without future significance. The ultimate emergence of certain selected and most capable Values as Exchange Values or Value-Prices is the last stage of the evolution of Value.

The most important innovation which the study of economic behaviour, as carried out in my earlier book, seems to prove as necessary in the accepted system of ideas is the recognition of the supremacy of moral ideals in economic science. Not only are the two spheres of thought not distinct, but the inclusion of the one is essential to the proper understanding of the other. We may pardon those who took the first step in separating them when we understand the difficulties of their position as pioneers; to continue a policy of caution which was, perhaps, hardly ever required in reality would not be a blunder, but a crime.

The reaction of the moral conception of Value on economic theory is subversive in many respects. The chief logical consequence is that Values are seen not to be measurable, either absolutely or proportionately, to one another except in their concrete forms, as when they become Exchange Values. Even so their objective measurement in Price is deceptive, because subjectively the Value, which obtains its fruition at a definite Price, may or might have been far higher than the Price itself. This well-known fact is the basis of bargaining.

At first sight, the statement that Values are strictly not measurable seems in conflict with the statement made above about economic Values being measured Values in comparison with philosophic Values, which are beyond measure. The latter statement is justified by the well-known fact that in some, and in many, cases economic Values can be brought to measurement as Exchange Values, whereas philosophic Values are, *ex hypothesi*, conceptions of reality beyond reach.

In subjective Values, which are very important as governing

expenditure, it is not true that proportionate relations are stable. It is not logically sequent that, among subjective Values, if A be greater than B, and B be greater than C, then A will be greater than C. It is not true because the above relationships of Value are more complex than appears from the curtailed statement of proportion.

Let us take young Andrew, who comes from Fife, where they learn to be good and careful. The Value of A to Andrew is greater than the Value of B; similarly the Value of B to Andrew is greater than the Value of C; but the opposition of the strange relationships of A and C to Andrew may bring new comparisons into his mind, and the Value of C to Andrew may be greater than the Value of A. In fact, in all three cases it is not either A, B or C that Andrew needs, but some satisfaction behind all of them, which is different from the objects themselves.

Another important fact about Value emerges from the examination of Subjective Values, when they are either simple or operative. It is of extreme significance in commerce, as governing the fixing of Prices and the manipulation of Demand. It constitutes the prime difference between Values and Prices. Its influence is more apparent in considering the nature of Price than in determining the nature of Value. In the history of Value it is inherent and, so to speak, commonplace. I refer to the futurity of Values. Until the transaction of purchase has taken place, no one knows for a certainty whether any individual Value will realise itself in a Price. This potent characteristic of Values and Demand places them in a position of eternal economic superiority over Prices and Supply.

I have already referred briefly to the phenomenon known as competition, usually described in terms implying that it is a force or agent. Even Adam Smith regarded it to some extent as a beneficent power working like yeast within the economic world. One more fact about competition must be mentioned here, about which there is no manner of doubt. Whatever it does do it does not explain the effect of scarcity.

Competition is usually keenest on an even market, when quotations are brisk and close. It decreases with rising Prices, because high Values are fewer than low Values. On a falling market it also diminishes, because, from the nature of Value, abundance of Supply removes the necessity of effort, and effort is of the essence of Value. Existing Values already in the market are satisfied and new ones do not come replace them.

CHAPTER II

THE NATURE OF PRICE AND SUPPLY

καὶ ἔλαβον τὰ τριάκοντα ἀργύρια τὴν τιμὴν τοῦ
τετιμημένου ὃν ἐτιμήσαντο ἀπὸ υἱῶν Ἰσραὴλ . . .

GOSPEL OF ST. MATTHEW, xxvii. 9.

Greek Testament.

And they took the thirty pieces of silver, the price of him that was valued, whom they of the children of Israel did value . . .

Ibidem. Authorised Version.

Et acceperunt triginta argenteos pretium apreciati quem apprehaverunt a filiis Israel . . .

Ibidem. Vulgate Version.

And they took the thirty pieces of silver, the price of him that was prized, whom they prized of the children of Israel . . .

Ibidem. Douai Version.

And they took the thirty pieces of silver, the price of him that was priced, whom they of the children of Israel did price . . .

Ibidem. Revised Version.

Ils ont reçu trente pièces d'argent, prix de celui dont les enfants d'Israël ont estimé la valeur . . .

Ibidem. Version of M. l'Abbé Crampion.

Ils ont pris les trente pièces d'argent, la valeur de celui qui a été mis au prix par des enfants d'Israël . . .

Ibidem. Another French Version.

IN this tremendous passage of Scripture, the most pregnant expression of irony which has been written, there is implicit in the original a distinction, perhaps more, a contrast, between that meaning of the Greek word, “τιμάω,” which conveys a moral estimation, or honouring of the divine in character, and another and baser estimation, or pricing of a human life of no account. The power of the great phrase is due to a supposed equalisation of the two meanings of honour by those incapable of understanding the higher. In our Authorised Version nothing is lost of this supreme effect, and the opposition of the

words, "value" and "price," brings out fully the opposition between the sublime and the trafficking point of view.

In the Vulgate, where the single word "pretium" has little of the double meaning, the irony and overwhelming scorn almost disappear. The phrase sounds little more than a jaunty jingle of ordinary words. This unfortunate lapse of the Latin translation lamentably reappears in our Revised Version, from which all significance has gone. The Douai Version of the Vulgate, which dates back to the great time of the English tongue, restores much of the noble character of the original.

To me the passage, in its various versions, imports in all seriousness a supreme example of the full content and significance of a much-burdened term. It unravels, under a flash of blinding light, the familiar tangle between our emotions and the calculations which accompany almost every act of preference to which we are committed in daily life. By its aid it becomes easy to see at once that, while there are some acts of choice, where nothing but a moral judgment is involved, there is no act of calculation in which, by comparison with some other act or possibility of acting or refraining from acting, some exposure to moral support or criticism is not incurred.

Hence our English word "Value" is charged with the double task, which it has inherited from the Greek word "*τιμή*." Most modern peoples who are in the forefront of civilisation have languages with a similar limitation. Only the Italians that I know of have tried to find a way of escape. They have "Valore," indicating an immanent value akin to virtue or excellence, and "Valuta," a reckoning of value, akin to our "valuation," but not so definitely restricted to specific commercial operations.

This general failure to allocate, under separate terms, the moral estimate and the effort of calculating profit or loss in respect of the same act or object, must have a recondite cause, hidden deeper than our consciousness. If it does not escape me, which is quite possible, I should explain it by my belief

that hardly any thought or act of which we are capable is free from this double nature. Only in the rarefied atmosphere of personal religion, in the deep concentration on high knowledge, in the self-sacrificing devotion of war or in the overwhelming love of motherhood, is a human being lifted quite above calculation.

If we place Value so high in contrast to Price, what justification is there for relegating the latter to a lower level? Is the scorn of trafficking merely a relic of Greek or Feudal aristocratic ideas? Is there a basis in logic for placing the two ideas on different planes? How much of all this is mere prejudice and rhetoric?

In my opinion, there is good reason for placing the psychological idea of Price in a lower order of the same category as Value. Let us go back to the glowing vision of the apple in the poet Sappho's illustration. We shall have to come down to the ground both in fancy and in fact. When the apple-gatherers have passed by, leaving, from laziness or carelessness, a spare harvest of fruit unpicked, there comes a vagrant whose need imposes on him a different standard of Value for food of any kind. He will improvise a ladder from a long sapling and strip the top branches of the apple trees. In his elementary psychology, how will he deal with them? Let us suppose that, by going from tree to tree, he has picked a good deal more than he can eat and even more than he can keep. He has obviously, after providing for the morrow, some to spare to exchange a few with a fellow-vagrant, who has olives or corn in hand.*

To give the illustration a closer economic analogy, let us suppose him to be a producer under no sort of compulsion and free to direct his efforts, as long as and as hard as he wishes, in order to obtain a supply of his single line of commodities. The same psychological order of motive will prevail with him as with the apple-picker. He will produce food or clothing in

* There is a difficulty involved here, which I endeavour to discuss briefly in a note at the end of the chapter.

definite quantities under exactly the same succeeding impulses ; so much to use, so much to keep, so much to sell.

That is the exact order of the impulses in the creation of articles for Value. The primary impulse is pure Value ; the second impulse is Value for Reserve, the estimate of present effort against future want and contingently Capital ; the third impulse is for Exchange. All three impulses are Values of a kind.

Putting it in other words, which stand equally true for economic impulses, both of elementary life and advanced organised life, the purposes of Values, as defined, are not the objects or commodities, at which they are apparently aimed, but three different phases of life : (1) Consumption for need ; (2) Reservation for consumption, from which springs Capital organisation ; (3) Exchange for the purposes of extended consumption and a fuller life.

The duality of Value, derived from Aristotle, which Adam Smith supposed to be complete, of Value in Use and Value in Exchange, is illusory, because it leaves out the second stage, without which the third might arise, but could not be developed. The true psychological compartments of Value are three. Value in Use is primary Value ; Value in Reserve is secondary Value ; Value in Exchange is tertiary Value.

The Primary Values I have dealt with at some length. Secondary Values are of immense importance, as they are the foundation of civilised life. The psychological nature of Capital, from which I infer that it is a permanent institution assuming transitory forms, is a derivative of Secondary Value. Price, which in the form of Exchange Price is equal to Exchange Value, is practically Value-Price and, therefore, a tertiary form of Value.

Parenthetically, it may be asked here : What is Price if not Exchange Price ? or, When is Price not Exchange Price ? The answer is, when it is only a quoted price, which is common enough. For instance, all shop-window prices are quoted

prices, and for the moment that only and nothing more. All watches marked in a shop at £20 have a quoted price of £20. Whenever one of the watches is sold for £20 that sum becomes for that particular watch a Value-Price, and, therefore, an Exchange Price.

Price, then, has little psychological content as apart from Value. The differences between Value and Price are not those of essence, but of attribute, arising from the different parts which buyers and sellers have to play in the organised world of Commerce. As Demand is a Group of Values, so Supply is a Group of Prices.

The decisive proof that Price is in its nature a Value, but in its form something else, is visible in its progression from uncertainty to certainty. In its early stages potential Supply, or a Group of potential Prices, is as tentative and nebulous as a Group of Values. But the nature of a Market, to be more strictly defined later on, requires that at some stage the intentions to sell, which are the material of Supply, emerge definitely into a fixed condition and become quoted Prices. We have, then, a definite quantity of commodities at quoted Prices constituting Supply.

I may here repeat one or two passages from the "Laws of Supply and Demand," where I examined the behaviour of the buyers and sellers in a market.

"Our civilisation presupposes an enormous aggregate of habitual wants with concomitant Values, which are not so fixed as they appear to be. Such classes of wants are, on the whole, satisfied by an amount of sacrifice which custom has approximately determined in each case. A disturbance of this custom produces unpleasantness, disturbs trade, and is, therefore, where possible, avoided. Within these limits Values and Prices easily coincide." *

"In the great majority of cases the buyer comes with his notion of Value and waits to see if this is correctly interpreted within certain limits of variation by the seller; in other words,

* "Laws of Supply and Demand," p. 33.

he looks round to see if he can satisfy his wants at a reasonable Price."

"This brings us to the point of view of the other party to the transaction, to the state of mind of the seller, and we find a very real difference between it and that of his opponent. At first the seller seems to have all the advantages of the situation. To begin with, he has generally named a Price and, apparently, made a market. These prices remain fixed during a reasonable period of time and have the advantage of being quoted as the current prices of the day and the apparent measure of Value even though no transaction has taken place during the period." *

To this "stand-pat" attitude of the seller, as it would be called in America, the effective response of the buyer or buyers is to stay away. Should this manœuvre be persisted in, the sellers, even in retail trade, would be helpless and prices would have to fall. As a matter of experience, such an eventuality seldom occurs, owing to the inevitable recurrence of Demand. The renewal of Values through the day-to-day necessities of buyers is to be depended on in ordinary circumstances.

Competition among final sellers for custom in the retail market practically never takes place except in fragmentary fashion at occasional "Sales." The so-called competition among sellers before the marketing of Prices is not really competition at all, but the skilled assessment of the approaching Values of the season. Such a general marking of Prices is, in fact, invariably carried out in concert, either on the principle of adding a fixed general proportion of wholesale and retail profits over Cost of Production, or by actual agreement of the leading firms in the market from day to day.

A striking instance of the method of carrying out concerted action of this kind under circumstances of extreme difficulty is in vogue now in Germany during the summer of 1923, while the mark has been tumbling down to multi-millions in the pound. If a buyer walked into a bookseller's shop in

* "Laws of Supply and Demand," p. 35.

Munich to buy a well-known book, he would receive a quotation obtained by multiplying the "basic figure" (*Grundzahl*=*Gz*) by the "index" (multiplier). The *Gz* figure was the approximate pre-war price in marks, and the index was the official quotation of marks to gold issued, not by the Government or any central authority, but by the booksellers' association every day.

Summing up the conclusions, both abstract and concrete, of the last two chapters, we see that Value is an elementary force, the sole existing force in the economic world. It must be called a psychological force, because it is conditioned psychologically by processes of extreme complexity in the human brain, where other moral-mental forces, not specially related to material objects or material conditions, have free play. It is characteristic of resulting Values that moral or subjective self-conditions * preponderate in their formation over the external or objective conditions,† which are peculiarly characteristic of the several commodities constituting the object-matter of all economic activities.

Price is a tertiary form of Value, derivative from primary Value, differing chiefly from the latter in that it is materially conditioned by the existence of commodities already produced in the expectation of satisfying Values. Since the objects of Value are antecedent to Value in time, so, too, Price, though logically sequent to Value, is antecedent to Value in time.

As a form of Value, Price also is a psychological force; but, being tertiary to Value and logically inferior, it is a weak force in its opposition to Value itself. That such a conclusion is not fanciful is apparent from the known fact that no one, in creating a material object for anything but his own needs, is aware with certainty what return he will obtain for his sacrifices, either in commodities or in the medium of exchange.

The weakness of Price thus arises from its inevitable con-

* "The Elements of Value," Chapters V.-X.

† "The External Conditions of Value," Chapter XI.

nection with material things. The sacrifices have been made. The object has been created. The reward is contingent.

Such strength as there is in Price is obtained from the organisation of the commercial world, which, as we well know in the piping times of peace, consists largely of combinations of sellers. Sellers combine because they have to do so in self-defence.

It is interesting to note how final retail prices are built up. The basis of them is the cost of raw material, and a bare manufacturing cost with a reasonable profit in each case. Then comes the wholesale dealer with his costs and profit. Lastly, the retailer adds another 30 per cent. to 80 per cent. for his own costs and profit. These three large groups may be held to include all the costs and profits of intermediate buying and selling brokers, carriers, warehousemen and insurers.

The machinery of inclusive production varies in different industries. In the Lancashire cotton trade the list comprises at least nine independent parties without banking or insurance. At each stage of the passage of commodities from one hand to another the Cost of Production necessarily mounts up, and prices tend to acquire a more or less fixed character. I believe that this tendency is partly due to instinctive combination among the whole group, whose joint interests constitute the trade, but partly due also to moral considerations of great weight.

It is undoubtedly true that, since a considerable number of us, if not the majority, are engaged in one way or another in production, a prevailing feeling of justice induces us to requite producers of all kinds with a fair reward for their efforts and sacrifices. A strong basis for a moral appeal to buyers for the return of Cost of Production with a fair profit is built up by natural processes, and in small trades and industries concessions to the sentiment are very common.

Prices of materials are liable to great fluctuations, especially of food materials, and of everything that depends on weather and the soil. Every stage in production fortifies prices.

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Wholesale prices of manufactured goods are stronger than prices of raw goods. Retail prices are stronger still. They are raised by custom like a high rampart against individual caprices. It is seldom that retail prices fall so low as to give no profit to the small shopkeeper. They only give way slowly after the great markets of raw stuffs and goods in bulk have already lowered their prices.

NOTE TO CHAPTER II

In the imagined incident discussed in the text I seem to lay myself open to the charge of Rousseauism, in constructing a psychological scheme to suit my purpose. First, the situation is not mine, but taken from the poet; secondly, the vagrant constructively imagined is not at all a "natural man," but a plain man with a purpose, driven by hunger. The "natural man" would eat what he wanted and go away; the man with a purpose is capable of a greater effort than the apple-pickers, because he is impelled by need, which will enforce caution on him and make his effort continuous until he has obtained an ample supply.

I believe that the order of his motives would be: (1) Life, (2) Foresight for Life, (3) Enjoyment.

Let it be remembered that if he followed the other psychological order and chose enjoyment before provision for the future, his tendency would be not to survive under difficulties and certainly not to be able to provide for a family.

Certain classes of animals have only survived from originally developing the instinct for preserving stores of food for themselves and their young. Survival of the offspring has necessarily depended on the transmission of this special characteristic; those of the progeny who were without it coming to an end in the course of nature.

Civilised man is not descended from the "natural man" but from the man with the purpose, who understood the true order of values.

CHAPTER III

THE OPERATION OF VALUES

L'homonculus Cuccoz ne souriait plus.

ANATOLE FRANCE : *Crime de Sylvestre Bonnard*.

So far as we have gone, we have been talking of elementary, simple, or single, Values, implying a state or stage of Value which is common to all Values, and a fundamental condition which has qualities remaining permanent, even in later and better developed stages. All these conditions and stages must now be differentiated from the primary Stuff of Value, which represents a mere positive tendency to effort on the part of an Agent towards acquiring an Object. It is important to remember that any one of the most elementary forms of protean Value may leap through all stages of effort in a flash and become Exchange Value.

There are two ways of looking upon Value, affording classifications which are not exclusive. From the point of view of the Agent, as a single unit regarding multiple Objects, Values are of three kinds.

(A) *SIMPLE VALUES*.—These are Values of a single man for one or several of many alternative objects, for each of which he is willing to put forward effort, while it is impossible or difficult for him to obtain all, or even a few, of them together. These Values constitute the more important of the numerous Alternative Wants which are his daily companions, only a few of which he ever expects, or intends, to realise. Simple Values of this kind are not necessarily weak ; they may be very strong indeed ; but simple Values they remain until they develop sufficient financial strength to come into the Field of a Market. It may be said of them in Sappho's words :

ἀλλ' οὐκ ἐδυναντ' ἐπὶ κεσθαι.

(B) *OPERATIVE VALUES*.—All Values which come within the Field of a Market are Operative Values. A Market, as described by Professor Marshall, may be large or small, but it must be governed in all its parts by one price for equivalent quantities over a certain length of time. A commercial market is in these words very well defined, but commercial markets are, in fact, only temporary centres of trade carried on under conditions which are more or less stable for a limited time and in a definite place. Neither period nor locality is exactly determinable or definable. Either of them is apt to become unstable without warning. Every commercial market is itself a constituent item in larger markets, national or continental in character, and the latter, again, are subject to winds of prevailing opinion gathered from the four corners of the earth.

Every market is a psychological centre, a vortex of effort, opinion and calculation. These vortices themselves live within vortices, whose complications exceed those of the barometrical chart. Market prices, as they are called, but market quotations as they really are, appear in newspapers, on boards and tapes, in order to give a semblance of stability to seething confusion. The forces that govern these fluctuations are not the schemes of the groups of strong firms who assert a nominal leadership, but the resultant forces from every group of struggling Operative Values. This brings us to a new definition of some intermediate stage of Value, between simple desire tending to become effective and desire attaining fruition in Exchange Value.

Operative Value is that degree of Value which tends, under market conditions, to become approximately efficient or actually efficient in obtaining equality with quoted market Price.

(C) *EXCHANGE VALUES*.—We are at last on familiar ground. Exchange Values can be studied from the point of view of the buyer or the seller. The latter point of view is more usual, since it obviously is the same as that which prevails in the study of Exchange Prices. It is, therefore, also more

useful in general commercial practice. From the former point of view Exchange Values have a vast interest, as they constitute the history of Expenditure and represent the study of Consumption.

Before passing to the study of the Operation of Values, I must note, for the purpose of distinction, the second classification of Values, which is the subject of the next chapter. Looking at the Agents, as a mass, from the point of view of each kind of Object singly, Values fall again into three groups very different from the former and following different lines of cleavage.

(1) *SINGLE VALUES* are Values of several individuals for one object or one kind of object. Both simple and single kinds of Value are elementary and more or less inefficient, but with contrasting aspects. For instance, the desires of one man for a horse, gun, or garden, are Simple Values, but the desires of each of three men for one gun are Single Values.

(2) *GROUP VALUES* are larger bodies of Single Values opposed to groups of objects of the same kind. They are the subject of intense economic preoccupation. For instance, the desires of three men for one gun can be settled by chance, agreement, or mild competition, but the desires of fifty men for thirty guns is an economic force of the first magnitude. It is Demand, which governs Production.

(3) *GENERAL VALUES* are the Demand by a whole population for the whole visible Supply of Wealth directly attainable, or even contingently attainable. It is the juxtaposition of massed desire and effort against the gross sum of consumable commodities which have been produced by former effort.

The Operation of Values concerns the history of all the great Exchange Markets of the world. Banking, the Money Market, the Speculative Market for Stocks and Shares, constitute one great group, whose business it is to assess the available supplies of currency and to construct on them instruments of credit, balancing their amount against the commercial

needs of each community for permanent and temporary financial assistance. It is characteristic of this group that it deals with the most fluid material in the world, supplies of circulating capital or floating Wealth, destined more or less steadily for productive purposes. The almost perfect elasticity of this medium is only partially interrupted by the vagaries of Governments, which interfere with free exchange, often with unconscious impulse and usually with mischievous effect.

It is, unfortunately, within the capacity of the civil power, by interference with the supply of legal tender, to alter the relative value of all fixed contractual obligations at a stroke, and ultimately to annihilate certain groups of property in private hands for the benefit of other proprietors, whose proportionate gain is small compared with the total loss. Under repeated blows, struck at the most important of all the conditions which govern Values, very nearly the whole vitality of any existing economic organisation of commerce and industry can be destroyed with no corresponding national gain. The mere postponement of temporary problems for future solution is of little advantage to the general public because in no single respect do any of the disastrous conditions, whose fatal effect is feared, tend to improve themselves. Any apparent economic gain that comes to the labouring masses of large populations speedily passes through their hands, only to enrich a small and chance-selected class of commercial organisers who happen to occupy at the moment positions of strategic economic advantage.

Around the financial group of any complex economic system are arranged the various great markets for wholesale supplies of food and raw materials of all kinds. The latter can never secure complete independence of the financial group; nevertheless, oddly enough, the wholesale markets somehow contrive to carry on their national and world business, even when financial and fiscal arrangements are almost completely thrown out of gear.

The peculiar currency conditions of the Central and Eastern

countries of Europe since the war exhibit the astonishing extent to which produce and manufacturing exchange can be effected with almost any kind of money, and apparently sometimes with none at all. The recent augmentations of currency have repeatedly exceeded the limits set by the most nimble imagination, and all historical parallels have been rendered negligible. So long as national legal tender continues to be acceptable as wages, as Mr. Hawtrey has made clear, it seems to retain some kind of Value in spite of indefinite multiplication by over-issue. Legal regulation, relying on confidence in appearances, can, it appears, be carried to extreme lengths never before deemed possible.

There is evidence of an unexpected solidity in modern commercial systems, attributable to the existence of factors of inherent strength in experienced business communities which have not yet received their due. I incline to the belief that the power of the State, even of a viciously destructive State, is limited to a capacity to injure private property, to destroy commercial machinery of all kinds, to hinder the creation of certain kinds of Values, but not to touch the general power of Capital, as a whole, by anything short of wholesale confiscation.

Inflation may be carried to a point where all fixed juristic rights and titles reposing in debts or obligations may be minimised to the verge of destruction, but defensible titles to land or goods will remain and grow in relative Value with the disappearance of more complicated forms of property. From the class of newly enriched possessors of exchangeable property new capitalists will arise on the ruins of the old. The new class will not have the proved traditions and tried skill of the old, and will sadly lack the experienced group-formations which constitute commercial efficiency.

To illustrate my point, I will take the great wholesale stock and produce markets which surround the credit market in a progressive country. The achieved expertness of a modern credit system, by discriminating loans of currency for short

golden moments in a time of stress, by carefully economising its use in periods of idleness, and by multiplying swift exchanges at low rates of profit during prosperity, calls into being, from day to day and week to week, Operative Values which, without this irrigating stream, would have remained infertile. On the other hand, any withdrawal of credit, with a consequent retardation of transactions, inevitably effects a general loss by denying opportunity to thousands of Simple Values which never become operative.

Under a healthy system, well furnished with capital, the rewards of monetary services are smaller but more frequent, and a larger body of democratic capitalists is created who deal freely with all who need their services and can pay for them.

A stupid and unjust, or openly persecuting, system throws vast power in new and unexpected directions and generally into few hands. The newly risen dictators become almost independent, both of Government and of the old machinery of checks and counterpoises. They are able, as we have seen in Germany, to indulge in ruthless exhibitions of power, curbed only by the dread of robbery or assassination.

What is true of the produce markets holds true of the great productive minerals, coal and oil ; the material metals, iron, spelter and copper ; the organic materials, cotton, wool, flax and rubber. The great bulk of these supplies may move slowly through the markets in gross amounts, not greatly inferior under a crude economic system than under a fully developed one, but the fructifying Values, which might have been created, are scarcer and less active. The finished goods come out in few and crude forms, and the final prices are high. The markets, to absorb the high-priced goods, are scanty and weak. Demand is slow and not easily revived after satisfaction. Unemployment grows and taxation adds to costs. The progress of the country is retarded and is even in danger of arrest.

It is not the cutting out of the middleman and his capital which tends to lower prices and stimulate trade. So long as

the middleman does his expert work of multiplying Utilities and Values, of cheapening Selling Costs and of lowering Final Prices, the more of him the merrier and more prosperous the country will be.

In no respect have the European countries, and particularly the United Kingdom, suffered economic deterioration more vitally in the psychological sense since the Great War than in the general inclination, superstitious or metaphysical, perhaps, in origin, to eliminate or lessen the number of intermediate steps between producer and consumer, under the mistaken impression that unnecessary expense will thus be disposed of. The result will prove, has proved, far different.

It is the middleman who creates the utilities, who discovers that the consumer, while asking for A, would really prefer B, who understands that a highly developed community will not lightly cast aside its experienced wants, who seeks out Simple Values and, by divination or patience, transforms them into Operative Values or customers who will think of paying for what they want instead of looking at commodities through a shop window.

So deep-rooted a prejudice as exists against middlemen will, in any event, be slow enough of itself in dying, but it is unfortunately encouraged by Government action. In August, 1923, for instance, a Departmental Committee of Inquiry into Meat Prices and Distribution Costs published a diagram, whose effect is to fan the folly of prevailing ideas by representing actual complications of distribution as worse than they really are.

Diagrams are notoriously dangerous, even when the facts are carefully presented with the utmost simplicity. The diagram in question is as bad as it can be. It presents the returns of the sales of live stock and dead meat together, causing unnecessary confusion, so that some of the live stock is apparently killed by the commission-salesman, the last thing that would happen in real life. There can be no possible usefulness in issuing half-cooked information of this kind so incompetently to the public.

As to the practical effect of the report, two morals can be drawn with equal injustice from the picture. First, that the farmer is robbed of a decent reward for his costs and sacrifices ; secondly, that the consumer has to pay far more than their real cost for the necessities of life. While neither of these propositions is strictly true, it is evident that they cannot both be true together. The two grievances are unfounded and incompatible ; but the real object of the report is obtained by keeping them both alive and by confirming unreasoned prejudice.

Food distribution is crude and expensive. With the advent of more middlemen it would become smoother, more efficient, and raise a greater Demand for the special products which the consumer really wants—more numerous varieties of loaves, cakes, biscuits, or of prepared vegetables and vegetable soups, or of joints, sausages, bag-puddings and galantines. The residuary offals of meat, grain and vegetables would be better utilised. Half-prepared foods, not needing to be cooked, which the working woman greatly needs, would be multiplied, and, what is more important still, would be popularised. Vast amounts of coal, now poisonously wasted in small fires, would be saved. Distribution, after going through a preliminary stage of expensiveness, would ultimately be more efficient and reach a lower rate of cost of which we now cannot even dream.

The distribution of semi-manufactured and finished goods is more perfect than in the case of food, because all the detailed processes of manufacture and preparation are better specialised. In an expertly developed trade, like that of the textiles, many of the links are properly equipped with the double sets of buying and selling brokers, and other commission workers, whose lubricating functions in distribution invariably contribute to cheapness.

None of these hard-working groups of men can survive long if they are not really useful. The perfection of these links is the true test of sound commercial organisation and of superb

health in the industrial system. Whenever war, or any other cause of social disease, impairs activity and efficiency in the great trade units, some of their important links become worn out and are thrown away, others are violently broken. As a result, if the fundamental system retains organic vitality, the nearer links close up to restore the continuity of function, as in a broken limb, and the whole body once more works in a fashion, though creakily, and always more expensively. Profiteering arises through defects in the process of joining up the broken links, often involving the substitution of mechanical devices for carrying out the duties usually performed by organs of slower development.

The study of the development of Values from Simple through Operative forms into Exchange Values overlaps the theory of Demand itself, which properly belongs to the next and later chapters ; but, as I said above, the two rival classifications are not mutually exclusive. The great problem of cheap selling can be solved with equal propriety, in fact, must be solved with equal necessity from the two points of view. It is rather a difference of mass-effect as compared with detail-effect. The great trades look at Demand in the mass and contrive central machinery to meet it. The retail trades look at Demand in detail and work tirelessly to evoke its special responses.

CHAPTER IV

THE GROUPING OF VALUES

Alors que dans la domaine de l'industrie d'Etat nous avons à constater la dilapidation ininterrompue du capital industriel, il en est tout autrement en ce qui concerne l'industrie privée. . . . A côté de la coopération et au dessus d'elle, le commerce privé se développe de plus en plus dans les villages, car il sait mieux aborder le paysan et lui vendre meilleur marché.—*Report of Vladimiroff—Adjoint au Commissaire du Peuple aux Finances—to the Twelfth Congress of the Communist Party in Russia. January–April, 1923.*

THE second classification of Values referred to in the last chapter places (1) *SINGLE VALUES* on very much the same plane as *SIMPLE VALUES*. They are very much the same thing from a different point of view. In so far as they are completely single, that is to say, really isolated, Single Values are of very little importance. If fifty separate people are making up their minds to save money, in order to buy a house, or land, or a watch, they are all both far away from coming into operation in the sense of being likely to affect the market and also isolated from one another in the sense of not forming part of real Demand.

(2) *GROUP VALUES* are the most interesting form of Value and the chief economic entity that exists. They are not to be confused in character with Operative Values, since a body of Group Values may include many Values which are far from the operative stage. Besides Operative Values, a few Single Values and some Exchange Values seeking Prices may also be within the group. They have community of feeling but no common aim ; they are not, as a group, a force ; they contain forces in separate activity ; they constitute the field in which competition breaks out.

Let us examine the hard saying that grouped Values in the

form of Demand have, or has, a community of feeling, by which is meant a psychology of its own, yet the group does not constitute a force. Demand is not a force, nor is competition a force. If either were a force it would grow in power with its size, whereas the contrary is the case. Demand is really an immense aggregate of separate forces in emulation. Each of these forces works in the direction of obtaining the desired object, or kind of object, with the minimum of effort, and their numbers are a source of weakness to themselves and of strength to their opponents, the sellers.

The term strong Demand is a misnomer. Ample Demand is what the sellers want in order to strengthen their own position. There is no parallel to an economic situation in nature where force is free to combine. Economic forces are individual forces working under control. The strength of these forces is the strength only of the strongest amongst them. What happens in a great bargain, say the offer of 500 objects to 5000 active customers, is the skilful selection by the sellers of those 500 who can pay most out of the 5000 who can reasonably be considered. At the same time, if the sale of the 500 objects is very skilfully conducted, it is not made with a group of 500 buyers but with the 500 buyers individually, strung out on a line; 50 to 50 at one price; 100 to the next 100 at another price; and, as scarcity develops itself, the last 50 objects may be sold to the last 50 customers at a price which the 500 single individuals constituting the group could never, as individuals, have each paid.

The aims of the highest form of skilful selling under bargaining conditions, according to the observed habits of "economic behaviour," are as follow:

First, to assemble as large a group as possible of that special kind of Operative Values which is preparing to buy the particular article which is being sold. This group will include sporadic Simple and Single Values, which are on the point of becoming Operative Values. Within this large group potential Exchange Values will be found in considerable numbers.

Secondly, to split this large group up into two unequal bodies, of which the larger will obviously be unable to buy at the price which the sellers wish to fix as a minimum, and a smaller body of eager buyers, who will all be in the position to become Exchange Values.

Thirdly, to break up the smaller group—sometimes called, in American financial slang by an obvious metaphor, “the lambs”—into little huddled sections of buyers, who are driven by desire and/or necessity to buy at successively higher ranges of Value-Price.

If Demand be so constituted that the members can never, or very seldom, act together, in what way can it be considered a group? It is a group because, up to a certain point, it has a common psychology, which consists of a similar desire for one kind of object, of which there is a limited Supply, while beyond that point the varying aims of its constituent individual members become apparent; the variation residing in the degrees of separate effort which each unit of Demand is willing, or can be induced under pressure, to put forth. This double nature of Demand arises from the essence of the nature of Value, a force compounded of desire and effort. The desires are common and the efforts are rivals.

A study of the commercial system, as a whole, will throw the emphasis on the aspect of rivalry and concern itself, as economic theory has lately tended to do, mainly with prices. A detailed investigation of the conditions prevailing in any particular trade, however, must take the opposite view, and pay more attention to the common elements of Demand, in other words, to all the circumstances which tend to call out the maximum number of Values.

Under this method of scrutiny it seems to me that, while diverse elements go to make up separate Values, the tendency to a common purpose arises mostly from the general sympathy stirred by the moral feelings, or, to employ a less equivocal expression, by the deeper motives which centre round life and the greater aims of life.

That such a speculation is not fanciful appears from economic behaviour, which certainly in the most modern forms encourages the view that Demand must always be taken seriously, and that the most successful appeals to it are those which are couched in terms whose gravity has sometimes a rather ludicrous contrast with the circumstances which call it forth.

In considering Group Values or Demand, I shall, in the present chapter, examine the common tendencies in it at a period when the Values which make up Demand are still in the early stages of becoming operative, when they tend to union, and not in the later stages, when they become emulative and combative.

If there be anything new to be found in Exchange-Value by treating it as a psychological problem, it is certainly in this direction. The impulses that constitute Value are double. As far as the individual alone is concerned, their effect is in one direction. But, with regard to his relations with his fellows, the circumstances are more complicated and the result is by no means simple. It is desire which is common to many and leads the many in the same direction. It is concrete effort which becomes competitive in the face of scarcity and breaks up any tendency to common action.

Desire makes Values; competitive effort makes high Values.

A tendency towards unity for a temporary purpose, with a reversal of tendency under strain, is not uncommon in the relations of any human group, such as, for instance, in a conspiracy, which may act together for a time and suddenly break up under fear of detection. All combinations of this kind differ from the unity and diversity of grouped Demand in that their essential activity depends on their unity, and dispersion means the surrender of their purpose. It is the essence of Demand that it must act largely in concert at one stage, so as to influence Supply to come to meet it by means of massed production, and yet, in actual transactions of pur-

chase, the interests of the several purchasers diverge apart without the ultimate aim of a large number of them being defeated.

Many attempts at buying combinations have been, and are being, made. Their success or failure depends on the market. On a rising market a skilful combination may make a block purchase at a favourable price from sellers who cannot wait. In the face of coming abundance, however, it is probable that wholesale buying by an unskilled combination may effect purchases at a considerably higher price than would have been possible later for many of the separate members. In buying, combination is a difficult form of speculation, because it must be done early on insufficient information.

The special manoeuvres of skilful selling are comparatively easy on a rising market. Up to the beginning of the nineteenth century, and the coming of our half-developed capitalist system, there was a prevailing shortage of all luxuries and frequent dearth. The sellers had certainly the best of it. Combination among them was easy and the results of it effective.

The immense increase of the productive powers of our economic system after the Industrial Revolution reversed the historical situation. Sellers began to find it a serious problem to dispose of their wares at good prices, sometimes even at a fair price or at any price at all. We were, for a long time, not fully using the new flood of wealth for want of being able to dispose of it to Demand before the goods themselves began to deteriorate and go out of fashion, or before the producers of it had gone bankrupt. The pressing problems in industry during this period, as I observed in my previous study of economic behaviour, were the Control of Supply and the Manipulation of Demand.

During the whole continuance of abundant Supply and low prices towards the end of the nineteenth century, combinations among sellers were much more difficult and could only be effected with large capital and superb organisation. None of

them succeeded which did not effectively control and curtail Supply. As a fact, moreover, the curtailment of Supply by the elimination of unsuccessful manufacturers was generally a condition precedent to effective combination.

Since the prevalence of war conditions combination among selling organisations has been easy, owing to the insufficient Supply of Capital engaged in the great operations of merchandising and putting goods on the market. Shortage of Selling Capital and high wages, with increased Cost of Production, have made combination among sellers in general moderately profitable, and sometimes remarkably so.

To return to Group Values, a pertinent question arises: Why, if combinations of Demand are ineffective—why pay attention to groups at all? Is the term “group” misused in this connection? I do not think it is. No other word for small or large masses of people assembled under such fortuitous concurrence seems to meet the case. The overwhelming necessity for some form of concurrence appears from the economic situation. Demand must show itself as prevalent in some form which may become concrete or it will not elicit Supply. In the case of migrant nationalities, such as the Chinese in San Francisco, the Greeks and Italians in New York, the wants of the newcomers are unknown to the local population, and their peculiar needs remain unsupplied until they can form communities of their own.

The duty of Supply towards Demand is not so easy as it looks. Even when a certain body of Demand is known to exist its dimensions and possible extension under pressure are difficult to estimate. Yet experience has shown that a small output is expensive in manufacture, and a large supply will create a glut and injure the level of prices. The right assessment of the ultimate capacity of absorption of Supply by Demand, or, to put it in another way, the measurement of the power of suction of Demand for Supply, are only different metaphors in more or less common use for the Ascertainment of Values.

The ramifications in detail of this study are immense, and

frequent generalisations on its methods have not always been successful. There is one general tendency in the conduct of modern business which seems to me a sound indication of the nature of Value. Mass production cannot safely be undertaken on faith of great expansion of Demand except on broad, central lines. Our standard life needs are already fairly well supplied, so far as the cost of raw materials will permit. The chief openings for new products in manufacture lie on the borderland of those luxuries which the growing prosperity of peoples enables them to begin to regard as necessities. In other words, the concern of modern advertising is directed towards the maintenance and extension of the Standards of Comfort, as necessary to a fuller life, rather than to any eccentricity of appeal to refined luxury.

The conspicuous and significant feature of most expert advertising is not its attempt to urge the purchase of things, either for themselves or for mere enjoyment, but as instruments or emblems of a fuller and more varied existence, some more recondite and presumably nobler form of Value.

At this point we come on the more delicate and difficult ground of (3) *GENERAL VALUES*, which has already been much trodden. There is no more vexed question. So long as Value is held to be a quality of things in themselves, or a measured quantity of commodities, a rise or fall of General Values is impossible, whatever may happen to Prices. So we have always been taught; so many men, so many things; the relations between them, if quantitative, are fixed by the numbers existing of each.

If, on the other hand, Value be psychological and consist of the opinion that X men may have of Y things in a particular aspect, that opinion is subject to alteration. The alterations in a mass of opinion so widely spread, and belonging to units enormous in number and various in kind, are not likely to be very great or even appreciable except under great stress.

Since I hold Value to be psychological and, moreover,

estimable in future sacrifices, such as would be necessary to replace existing objects considered valuable if destroyed, it is evident to me that present General Values may be altered by any failing of our powers or any marked increase of them. If the whole population were to be attacked by a wasting sickness, which was damaging but not fatal in character, the existing body of material Wealth would vastly increase in Value. All instruments of production, particularly, would have to be carefully preserved, as being irreplaceable except by enormous sacrifice.

I am certain that a rise in General Values is not only possible, but is frequently taking place to an extent which is, as a rule, too small for estimation except by inference. I am also inclined to believe, for reasons which I shall examine later, that the effect of the Great War has caused a definite and considerable rise in General Values which will continue for some time.

Before leaving the subject of the Grouping of Values, may I indicate here how important this aspect of the question will appear later, after the Elements of Value have been analysed? What is involved is the rational explanation of the determination of Value itself, a matter rather different from its formal definition.

What determines the particular Exchange Value of any single object is the interaction of the whole group of Values, which we call Demand. This group of Values, if we may use a spatial metaphor, resembles, in its nature, a cloud of varying intensity which stretches out in a blunt point in the direction of the responsive cloud of Prices. The point is itself a small cloud, representing a number of Values by richer members of the group, the members who have the means to satisfy the more sanguine estimates of the sellers. Where one cloud meets and overlaps the other cloud, the corresponding cloud of sellers, we have Value-Prices.

The thickest part of the cloud, the chief mass of the group, is a body of opinion consisting of the strongest wills, not yet

equipped with sufficient means to buy, but instinct with desire and imbued with hope of being able to do so. This centre of gravity, of opinion and desire in travail influences the minds of the fewer and richer units, who effect the actual purchases.

As I have said elsewhere, it is the energetic poor who create the high Values ; it is the rich who pay the high Prices.

CHAPTER V

THE ELEMENTS OF VALUE—CLASSIFICATION

Theoretically we cannot advance a step towards a solution of the intricate industrial relations of society without first solving the intricate relation, Value.—JEVONS: *Principles of Economics*.

FROM the definition of psychological Value it is arguable that it is a self-determining thing, and that Values would be created by the mind without the co-existence of their Objects in external nature. In Economics the co-existence of the Objects of Value is assumed. Among the activities of the valuing mind implied in this assumption, some lie closer to the determining psychological mechanism and some lie farther away. Philosophically, the distinctions necessary all along the line in order to maintain this assumption of dualism would each require a separate battle to maintain its validity. In practice, the line running through these numerous distinctions is described as the line which separates what passes within us and is subject to our own changes, and what lies without us and remains unchanged except in accordance with laws, with which progressive human experience makes us day by day more closely acquainted.

The inside factors of this situation, those which, by hypothesis, originate from the self, I can reasonably describe as the Elements of Value, while the outside factors, which have no common origin and no affinity with one another, have to be given the more general name of the Conditions of Value.

The failure to distinguish between subjective and objective phases of Value is probably the true explanation of the bankruptcy of the whole theory of the subject, which is the present unfortunate position of this branch of economic study. Utility, for instance, lies chiefly within the personal conception of the

object ; Scarcity, on the other hand, lies mostly, if not altogether, outside that conception. The two ideas cannot be combined in any single idea of Value, that is, in any idea of Value which does not realise the essential duality of its nature.

In attempting to decide what are the Elements of Value, it is evident that nothing can be included as one which is not, as far as we can estimate its character, something that is primarily irreducible to another assumption more important and more essential than itself. If life, for instance, were single, it would be primary in nature and not eligible to be divided into three sections as separate elements. It is quite possible that life itself, human life as we deal with it, is single in just that sense.

But in a psychological study we are, strictly speaking, dealing not with life but with our conception of life. In the latter sense our views can be held to divide themselves naturally into three sections, all of which contain elements of Value, exercising great influence on our economic behaviour.

In the first section the Central Elements are concerned with the forces of life acting directly without respect to external conditions. They consist of simple and instinctive desires, and without them there would be no possibility of either life or value.

In the second section the Reciprocal or Regulative Elements are concerned with the balancing element of Value, where life ceases to be instinctive and effort begins to be aware of external conditions.

In the third section the Dynamic or Disruptive Elements of Value arise with the full awareness by conscious instinct of external conditions, such as difficulties of all kinds, by which instinctive desire develops into powerful effort and the great economic forces behind Value are fully engendered.

In the first section the three Elements of Value, which I deem to be concerned with Life, may be called the Central Elements : (1) Metaphysical, (2) Moral, (3) Unconscious.

The first element deals with all considerations and concep-

tions of life, aiming at a condition of happiness beyond the grave and other transcendental ideals, which estimate all material advantages as subordinate to greater issues.

Allied to them, but yet distinct from this group of conceptions and more important economically, are those mingled feelings compounded of desires and faith which centre themselves in a profound confidence that even the basest depths of human depraved effort and struggle are subject to the control of an overruling beneficent power coming to the assistance of failing human faculties in order to correct or supplement their limitations. The history of this almost universal preconception has been peculiarly important in Political Economy, and has pervaded with its special doctrines even the coldest forms of Economic Theory.

The second element includes comprehensively all conscious desires and forces which tend in the direction of prolonging life, of raising its aims and of expanding its possibilities.

The third element I hold to be the effect of forces derived from nowhere but within ourselves, having their source either from outside consciousness altogether, or from some layer of the self akin to consciousness but not consciousness itself ; or, again, of forces even present in consciousness in so weak a form as to deceive us as to their origin.

These Central Elements are the great driving forces of Value and, possibly, the only forces, since there is reason to suppose that the Combative (6) and Emulative (7) Elements are merely transformations of the original conatus of our primitive self, and not ultimately distinguishable from the force behind the Central Elements.

The Central Elements are markedly distinguishable in character from the Dynamic or Conative Elements by their obvious effects, as exhibited in economic behaviour. For the Central Elements of Value are cohesive and co-operative, as we remarked in our study of Demand, while the Dynamic Elements are aggressive in their action and tending to be more or less disruptive in their effect.

Between the two groups stand two elements which may be called either Regulative or Reciprocal. As between the Central and Dynamic groups, they determine the direction of action. Their estimates of self-interest or contingent reward to the human agent or valuer, consequent on a particular course of conduct, decide him to act in combination with his fellows or in opposition to them.

They tell a man when a thing is good and if there is enough of it to go round. In that respect their action is regulative. As regards one another their interaction is obviously reciprocal.

The Mental Element (4) estimates the attraction of the Material Element (5), and compares its appearance of desirability with its probable usefulness for an ultimate purpose, the purpose being decided by the Central Elements. Looking at the reciprocal action in another way, the Material Element, or the perceived qualities of the Object, attracts the Agent, or the Mental Element, and sets the tension of calculation astir in his brain, to be followed by the necessary sequence of motor reactions.

Lastly, the two Dynamic Elements regulate the competition of Agents for an insufficient supply of useful commodities; but the Combative Element (6) is more crude and predominates in loose and half-developed economic organisations. It admits of no compromise or roundabout method of obtaining desirable objects. On the other hand, the Emulative or Liberal Element (7) imports an improving and inventive spirit into competition. It does not carry on a struggle for specific possession to extreme lengths. One fights with sharp and the other with blunt weapons.

CHAPTER VI

THE METAPHYSICAL ELEMENT OF VALUE

Parlant par respect, tu es un luron ; mais tu n'es qu'un blanc-bec et tu n'as pas vu ce que j'ai vu.—PROSPER MÉRIMÉE.

It is evident that the Metaphysical Element in Value, so far as it is subjective and arises from the convinced reliance in each individual on some overruling power, has a paramount influence on the Moral Element. A profound conviction of the kind will in reality, and ought to, embrace within its sphere all the aims and purposes of terrestrial existence. Under these circumstances, any attempt to segregate transcendental from moral and moral from economic purposes, has no just theoretical basis. In practice the erring human will is not always awake to the differences in mental pictures of treasures laid up on earth and in heaven. Men have led moral lives and pursued high purposes, both as despisers and accumulators of wealth.

As it would be difficult to conceive in civilised countries of any metaphysical influence on economic affairs which did not act through moral ideas, the subjective side of the metaphysical element may well be left here. Only a few superstitious ideas of barbarous tribes can be cited to the contrary. Hence the moral purpose may be held to include, from the point of view of economic theory, all transcendental, not to say superstitious, impulses.

The objective view of the Metaphysical Element in Political Economy has a long history as well as a strong present influence. As a survival of theocratic beliefs, it at one time assumed the reverent form of a sure confidence in the general beneficent control by Providence over economic affairs. In the past, such

a confidence led to great results in the doctrines of *Laissez Faire* and Free Trade. In a precisely opposite direction, it has produced from time to time evolutionary philosophies and revolutionary propaganda, tending, in the last ten or fifteen years, to assert a dominion over the belief and hopes of mankind which few would have thought possible twenty years ago.

Each of the conflicting tendencies has, in turn, had a deep and lasting influence on the Theory of Value, and will be examined in this aspect in due course. For the present I shall content myself with remarking that metaphysical views appear in the Theory of Value in the following forms :

Land Values : The Physiocrats and others.

Intrinsic Value : Malthus calls it "the power of an object."

Labour Value : Petty and Ricardo.

Natural and Normal Value : Adam Smith, Ricardo, Mill and others.

Surplus Value : Karl Marx.

There was, above all, the famous remark of Adam Smith concerning the "invisible hand," which guides the operators from the motive of private advantage in paths which lead also to the public welfare—a phrase which has done much work and led to much bad reasoning in its time.

It should be remarked that of this most fundamental of all Adam Smith's doctrines no proof is attempted. It is repeated in various contexts, usually with the catch phrase, "naturally and necessarily," and the inference of its plausibility, probability and truth, is allowed to sink in and to be enforced by suggestion. Other passages which confirm this view are :

"The study of his own advantage"—in the employment of his own capital by each individual—"naturally, or rather necessarily, leads him to prefer that which is most advantageous to the society."

Or again : "By pursuing his own interests"—the individual—"frequently promotes that of the society more effectually than when he really intends to promote it."

It is less well known how much influence of a metaphysical nature was exerted on Ricardo by his conviction that, with complete mobility of capital, the inevitable tendency of profits to an equality exercised a beneficent influence on equalising the Values of articles created by equal quantities of labour.

There can be no manner of doubt that Ricardo's personal outlook on the exchanging and producing world, destined to have an immense influence on his contemporaries and for fifty years later, was coloured by his peculiar career as a successful speculator and by the bias of his cosmopolitan origin. It was only late in life that he bought his Gatcombe estate and took to the study of land and agriculture. His success in assessing speculative values, by which he made a fortune, naturally led him to take the view that Value was founded on something primary and substantial, perhaps intrinsic in nature. He was particularly curious as to the causes of the exaggerated prices of wheat in the years succeeding the Napoleonic Wars. It is a pity that he did not live long enough to carry his researches further.

Metaphysical ideas in the early theories of the Classical School of Economists can be described as going through three phases, all derived from the belief in an all-wise but slow-acting Providence. The first stage dated from Adam Smith and preceded the Napoleonic Wars. It can be summarised as a policy of getting rid of all restrictions on trade and trusting to the beneficent action of competition.

The second stage was equally optimistic and followed by a natural deduction from the first. Its original impetus came from the vast expansion of England's industrial system and from her triumph as the head of the European Coalition. Its chief development in economic theory was the belief in the Economic Man.

It should be remarked that the concept itself was not entirely new. As an intellectual abstraction the real parent of the Economic Man was Machiavelli's Prince, where also

there was embodied a concentration of efficient qualities without moral restraints.

The connection between the concept of the Sovereign Prince, absolved from morality by the duties implied in his fiduciary relations with his people, was fatefully combined with the idea of the Economic Man in recent history.

The former idea was adopted as part of an official Court policy of *Realpolitik* by the German Monarchy, and the latter was effectively imitated and improved by the German commercial system. It was part of the business plan that the Economic Man should be an efficient seller, and in this capacity, both abstractly and in practice, he resigned the use of no trick that was advantageous to him. He was never quite long-sighted enough to hold his own with American and British competitors, but before the war he was gaining experience in that direction and eliminating his crude faults.

This mechanical ideation was partly a product derived, naturally enough, from the idea of unrestricted competition, but still more from a desire to avoid a contest with successful political powers of reaction over the Malthusian doctrines. The Economic Man was to have a large number of children and to trust that they came from God. With this view of the origin of the family it was plain that he would have to fight and work for them without being too particular as to means, trusting that the beneficent power of Competition would put things right. Thus the idea of Competition as a force arose and continued to be fostered.

If the foundations of Economic Theory had been sound it is almost safe to say that, with proper safeguards, not much harm in practice or in theory need have arisen from the idea of abstracting certain qualities of human endeavour from others and building up a body of reasoning. The immediate advantages due to the system of Political Economy thus reasoned out greatly outweighed a few disadvantages. It is, however, unfortunate that any intellectual assumption, taken into common use, is liable to become a fundamental mistake

in theory ; and the more prevalent it becomes the longer time will the inherent error in it take to work itself out.

Whenever practical human interests are involved, some tangible evil must result from any basic misconception. The true vice, both of the older Economists and of the school, which arose later with the reaction against Ricardian ideas, lay in the neglect of the study of Value. Not realising that Value is the only force in economic behaviour, it was easy for both schools to believe that Competition itself was a force. Competition is the free play of Values, which are the sole units of economic energy, such other ideations as Free Trade, Combination, Protection, and various forms of State enterprise, being only names for positive and negative operations of the same simple elements of human will. By negative operations I mean no more than limitations of the freedom of Values in the interests of individuals or classes, or in the supposed interest of the whole Community.

By reaction against the overstrained or over-emphasised theories of economic individualism, those writers, who visualised more concretely than their predecessors the interest of the whole Community, have been opposed to the idea of Competition as a beneficent force, but never thought of denying its character as a force. It is the vice of many politicians that they seek support by relying on a battle cry against some evil power, rather than in ascertaining the nature of the common good and rallying all aid to establish it. It is always an easier remedy against prejudice to transform or invert it than to investigate and establish a more perfect generalisation and approximation to truth.

The outcome of the prejudice against Competition and Combination reveals the third stage of the Metaphysical Element of Value in a revolutionary theory of the just Partition of the rewards of Production. I call it revolutionary, not by way of exciting prejudice against it, which would be either provocative or unnecessary, nor to describe its political character, but to indicate the mental

processes, or want of them, of those who adopted it; the system being really an inversion and partial transformation of existing ideas, with very little novelty and no original thought to recommend it.

The masses of men have always believed, and still believe, in a Distributive Justice as a principle, but, having eliminated the feudal claims of land, having denied the existing rights of the acquisitive middle-class groups playing at their wicked games of Competition and Combination, they regarded the simplest forms of Labour as residuary inheritors of all Wealth and rightful owners of all future products of Industry. Other classes of Labour are to be treated as Complex Labour, to be paid off at various rates, estimated in democratic fashion. The justice, or otherwise, of this point of view must depend on the true analysis of the Theory of Value, but, without this intellectual solution of the complications of economic behaviour, it is quite undeniable that the pure Labour Theory of Value is a metaphysical economic idea and no more.

There remains one important intellectual problem to which no serious answer has yet been attempted in modern civilisations. The practical and uneconomic one of war is expensive and ineffective. The writings of Mr. Keynes and Mr. Harold Cox have done much to arouse public attention in England to the inevitable renewal of the recurring difficulties from overpopulation which attack most prosperous countries. It is still true, I fear, that most people regard the general question from the metaphysical point of view.

Fortunately in the practice of economic behaviour, as I shall examine it in the chapters on General Values and Standard Values, it becomes evident that the biological problem of indefinite increase, down to the limits of subsistence, is found to have less and less application to the human race with improvement of the standards of comfort. Already middle-class opinion, under economic pressure, shows definite proof of having approached a solution of the difficulty. Economic experience, also, among the better mechanics, artisans and

skilled operatives, of all progressive countries, tends in the same direction of altering the pressure from one of mere subsistence to one of definitely regulated struggle on a higher plane.

Without this unconscious or half-conscious tendency towards an indirect remedy, it could not be denied that, at present, so far as this great question of the Sphinx is concerned, the human race is bankrupt without much hope of rescue. Before it can be answered, there are three uncertain factors to be dealt with in the psychological situation :

(A) The nature of supreme well-being.

(B) The exact contribution of Wealth to absolute, as well as to relative, well-being.

(C) The relation of numbers of population to well-being. One is too few. Two are too few. How many are necessary to its absolute development ?

Failing a determination of these three factors, which may be slow in coming, the question must remain admittedly a metaphysical one. The practical problems resulting will be three :

(1) Shall production be allowed to obtain its absolute maximum per head ; with the growth of a large population at the expense of continued inequality, or even more exaggerated inequality than at present, in the partition of the products of industry ?

(2) Shall the population be limited to the point at which the maximum amount of Wealth per head can be allotted without regard to large or small total production ?

(3) Shall destruction or decay be risked as a solution ?

It is evident that any surrender of the hope of determining the exact nature and the full content of Value, with its consequent vindication of the idea of absolute justice in the Partition of Wealth—so far as that may be possible with the best attainable economic and political machinery—leads to two alternatives :

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(1) Absolute freedom in commerce, with the minimum of Government action ; or

(2) (*a*) Determination of the exact maximum of Wealth possible per head ; together with

(*b*) Elaboration of practical and humane methods of keeping down to the gross numbers, which are compatible with the maintenance of this condition.

CHAPTER VII

THE MORAL ELEMENT OF VALUE

Nihilominus sentimus experimurque nos æternos esse.

SPINOZA.

THE Moral Element in Value must be taken in its most general sense in Economics, not soaring on the heights of idealism, nor implying baseness of motive as necessary to economic endeavour, but presupposing every inclination to take rise from simple needs, repetitive commonplace pleasures and minute experiences of disappointment and realisation. The great passions and urgings come to us from a direction which we are often pleased to call, metaphorically, as below or within, and the vast plans and infinite longings by an equally common assumption as from above. The moral life is the life of appearance, and whatever of reality lies outside it must be judged by its effects in consciousness, even while we know that here is not the beginning nor the end of its history.

The Moral Element of Value is the interpreting element, receiving aspirations and impulses, using appearances and calculations, embodying efforts in conjunction with, but not in opposition to, other Values of the same kind. Efforts in opposition to other Values arise from the Combative and Emulative Elements.

Being the interpretative element it remains particularly the mark of eloquence and exhortation, as well as of persuasion, and even threats from without. But the inner threats that come from an empty stomach, or an empty hearth, the fears of a catastrophe, or of future indigence, of failure, of disgrace, of broken hopes, of lost friends, are powerful enough to need little help from outside representation. In general commerce

almost all the favourite appeals to arouse Value and excite effort are optimistic in tone, and even such gloomy subjects as insurance against death, and accident, and illness, are treated with delicate reticence and cheerful humour.

The principal operation of the Moral Element in Value is observed in expenditure. Little by little we build up our lives according to our ideals, according to our traditions and habits, according to accident or suggestion, and from our lives flow future lives and the possibility of future lives. Thus issues come to be decided more solemn than our own present or future happiness, than even the highest or the most humble ends that our personal imaginations can conceive.

Every social system, every political design, is subject, sooner or later, to the test of its effect on "economic behaviour," not only what we shall eat, or what we shall drink, or wherewithal we shall be clothed ; but how many of us shall eat, and drink, and think of the morrow ; and how many of us shall die by pressure of want or combat, and what kind of men and women will endure to carry out better contrived purposes than our own. Subject only to the forces that may destroy or gradually ruin our planet, or the wars that may exterminate our race, there is no ordeal for the survival of mankind more stringent than the effect on "economic behaviour" of the ideals and laws by which we are guided in its conduct.

So far as our Values are determined by moral issues, so far will our interests work in common, so much greater will be the possibility of a high degree of prosperity for large numbers of the races of mankind. If unrestricted, the possible numbers of mankind, the gross total of heads, must some day reach the limit. So, too, the maximum of the external material instruments of prosperity must reach a limit. But the internal sources of prosperity, our powers of reciprocating each other's needs, of varying mutual services skilfully until the appreciation of them, and gratitude for them, is indefinitely multiplied, can possibly have an elasticity that is infinite ; we need then

probably provide for no ultimate exhaustion of the supreme powers of the spirit.

If Value be not psychological in its nature, if the Moral Element in Value have not the power to absorb, or overcome, all the other elements in its character, we must look forward hopefully to some general and final catastrophe as the simplest way of determining the growing stress of the problem of existence. It would then be not so much extinction that we ought to dread, as the multiplication of flat and unfruitful personalities in a wilderness of devastating monotony, until uniformity was perfected on a low level of spiritual and intellectual satisfaction and requirements.

Turning to the more strictly economic features in Value, the strong position of the Moral Element in its constitution consists in its power of acting through large aggregates. There is nothing on which men unite so firmly and consistently as on some purpose, even if it be a matter of detail, which tends towards the completion of a moral scheme of existence. To come down, therefore, to a basis of pedestrian facts, the Moral Element of Value is the unifying, as well as the interpreting element of Value. It is this element which is the operating attraction in the grouping of Values which constitutes Demand. And stable and permanent Demand is in all production, and especially in modern production, the originating inspiration as well as the final cause of Supply. So long as producers can depend upon the existence of large bodies of Values, familiarly known as Demand, Supply can meet it with corresponding quantities of commodities which multiplying production has the capacity to make at small cost.

While the mass effect of stable Demand is necessary to elicit corresponding abundance of Supply, it is not equally necessary that absolute uniformity of the mass should be present in order to secure reasonable satisfaction for all the individual Values composing the group. As the nature of Demand becomes better understood, there is less need for absolute uniformity of product, because producers gradually learn to differentiate the

small variations required by distinct and changing tastes, and can meet them with infinite gradations of manufacture.

It is not true that factory production has extinguished variety or debased taste. A hasty deduction that multiplication means commonness arises from the fact that any sudden expansion of Supply must, at first, look to inexperienced and uneducated Demand for its sales. It is naturally the commonest articles that must be first multiplied. In all stages of expansion some deterioration of product is to be expected from the necessity of the case, from the inexperience of producers, the crudeness of distributing machinery, and the undeveloped state of the new Values which have to be created in order to absorb the great increase of Supply.

Already ill-founded criticism of machine-made production is passing away. There is some loss of æsthetic enjoyment to the few from multiplication of reproductions of objects in a secondary rank of beauty, but the institution of a new test for these fallen idols is, to some extent, a gain, by raising the level of taste to higher things. There is also a marked increase in the number and differentiation of the ranks of beauty, leaving ample room for large classes of designs specially appropriate for multiplication, so that the pleasures of familiarity appear and, to some extent, compensate us for the loss of the more delicate pleasures of appreciating rarity and connoisseur's beauty, a distinction which passes again to a smaller class of objects and one more worthy of them.

It may seem trivial to dwell on a single aspect of so large a subject as the Moral Element of Value ; but the point is of the essence of its nature. It is the general nature of the Moral Element which gives a special reinforcement to the spiritual side of its character. And I wish to show that true commonness is not synonymous with debasement. As a well-known habit of economic behaviour, it is now freely recognised that wide and steadfast Demand, or, in other words, a prolonged succession of Group-Values, betokens that kind of quality known as sterling. Within the wide group there should be

room, and there usually is, for many gradations of species without sacrificing the broad features of merit characterising the genus.

That human nature, as exhibited in Demand, will bear with a good deal more education is not a matter for surprise nor acute regret. Conspicuous, rather than refined, examples are more easily selected for imitation in early stages of progress. It must always be remembered in connection with Value, that the true advantage aimed at in desire and acquisition is some idea of life behind any group of objects rather than the objects themselves.

The Moral Element of Value may be defined as the highest conception of life possible to any definite group of Agents, as interpreted in any definite group of Objects, at any particular time or stage of development of Demand ; and that idea will pass on to higher stages of Demand, in accordance with the natural capacity of its authors for appreciating better qualities of commodities or better kinds of goods, and for making the necessary corresponding sacrifices for the costs of production. The range of objects available for realising these improved wants will advance with the expanding opportunities of civilisation.

Under the influence of the great common ideas of Value, which deserve to be called moral, opinion is very busy in exhausting the possibilities of satisfaction in one direction and renewing the pursuit of it in another. The vast machinery of the press provides abundant free advertising of all new opportunities of pleasure, of real improvements in vital necessities of health, in industrial discovery, in means of rapid locomotion and travel, or in fashions of adornment and amusement, and in the latest trivialities of luxury.

The publicity of the press, it is often forgotten, touches each new article or discovery only once, and provides no enduring test of the usefulness or permanently desirable qualities of each. Having just this deficiency to supply, the machinery of commerce fills the gap by general advertising, which absorbs a

considerable amount of energy and capital and adds appreciably to the prime cost of production, but by securing a market greatly decreases the risk of the enterprise. The commercial machinery required for this purpose, and its annual budget of expenditure, may be assumed to be in amount quite beyond the probable surmise of the layman.

It may be contended that, by immemorial usage, the word "moral" has been held to denote some elevation of desire or motive above that which is commonplace or degraded. Unquestionably, in a literary sense, a limitation of this kind aids concentration of thought, but it will not satisfy scientific needs. In economic use the word must be held to cover the broadest issues and the most general practice of human life, with regard to which, elevation above lower animal levels or former human levels are matters of common knowledge.

Whenever we tend to forget the past history of the process of human rise from lower things, there are many facts in our economic and other activities to remind us of dormant impulses whose character is indifferently moral in the higher sense. These subterranean tendencies will have to be separately and minutely considered. It will be found that the operation of the stronger unconscious impulses either pushes us in a positive economic direction towards the creation of Values, or ends in a negation through the impulses cancelling themselves out within us. Either they come into the region of conscious activity, where they are at least disputably moral, in the sense of being within a moral order of possible activities, or they lose themselves below the level of consciousness.

It must be remembered from our rival definitions of Economics, pure and simple, and of Political Economy, that it was only in the latter case that Values had full sway under the conditions of some more or less stable civil system. In the realm of Values, desire and effort presumably tend to create and maintain Values and, therefore, naturally and necessarily import the Moral Element, even if it be in some very humble form. Any activity, which is wholly disintegrating, such as

war or piracy, cannot be considered as coming under the necessary conditions of Value, which imply some sanction, legal or otherwise, for their maintenance. It is the aim of modern states to limit the sphere of war activities, even in war, and to deny civil protection for contracts which it especially designates as immoral.

In concluding these remarks on the Moral Element of Value, it appears to me to be necessary to state emphatically that the very highest order of moral effort cannot be excluded from the purview of Political Economy nor from the consideration of Value. Noble lives here and there work material results that are potent and enduring in their effects. But their recurrence and operation in that field are rare.

More powerful in the end, because more frequent, in fact, universally prevalent, are the little efforts, singly of low position in the moral order, yet never ceasing in their ephemeral repetition. They can be compared to nothing so fitly as to the minute jets of water pumped into a hydraulic jack or elevator, whose aggregate force can be made to move mountains in no metaphorical sense. It is the tendency for each manifestation of humble moral and economic effort to unite itself with similar efforts under similar conditions, which gives the Moral Element in Value its gigantic power.

CHAPTER VIII

THE SUBCONSCIOUS ELEMENT OF VALUE

Qui se suosque affectus clare et distincte intelligit, Deum amat.

SPINOZA.

Section 1.—INTRODUCTION

IN including the Subconscious Element or Elements of Value among the central tendencies, I must admit that such a classification requires some justification and notable reservations. Our actions in consciousness, so far as they relate to Value and can be included in economic behaviour, are predominantly moral in an immense majority of instances. The exceptions are few, and they tend to be ruled out. Whenever we have series of actions, connected in their policy and purpose, such as preparations of armaments, manœuvres of capitalists, betting and lottery transactions, and so on, whose morality is socially a matter of dispute, the action of the modern civilised State in not forbidding them, rules them, provisionally at any rate, as within the moral and social order, whether it be high up or low down.

With regard to our subconscious or unconscious impulses, classification is more difficult. By far the greater part of them discharge themselves or the resultant effects of their forces in consciousness within the moral sphere, and may, therefore, be termed central. Some, however, undoubtedly feed with their fuel the energy developed by the Combative and Emulative Elements. Reserving these sections for future discussion, I shall regard the operation of all the Subconscious Elements as directed substantially towards moral ends, and producing their preponderating effects by sustaining the central tendencies of life and Value.

One of the latest summarisers of recent teaching on the subject, Dr. Hans Sachs, of Berlin, lays stress on a vital difference between the Unconscious Self (A), whose impulses are fundamental and very strong; and the Subliminal Self (C), which registers weak and not properly recorded impressions, returning them into consciousness almost as if they came from some unknown source. In addition to this there is, I firmly believe, a Moral Subconsciousness (B), registering, not facts, but judgments on facts, both on their pleasure content and on their moral content separately, never making a mistake in either nor forgetting a judgment.

Each of these three important portions of the Self have their separate and marked effects on economic behaviour, some by supplying motives to personal activity and one markedly by stimulating group action.

Section 2.—THE UNCONSCIOUS SELF

The chief characteristics of the Unconscious Self are two, if they be not single, one appearing to proceed from the other. It is immensely strong and, when its force develops itself within us, it knows no fear. It partakes of immortality and is impatient of mortal limitations and apprehensions. It inspires fear, as the poet has well said :

High instincts, before which our mortal nature
Did tremble, like a guilty thing surprised.

Its operation is incalculable. Its identity is a matter of inference from conduct. It cannot be the subject of introspection, because the deep feelings, to which it gives rise, spring from impulses entirely dissociated from consciousness.

Observation shows that in primitive natures its powers lie near the surface and are called for on slight occasions. In other natures, often classed as weak, unconscious instincts gather impetus slowly and develop conscious force in action with difficulty, or under circumstances where it is hardly expected.

Its currents adjust themselves to moral issues with some clumsiness. Undoubtedly they constitute the motive power, particularly in all enterprises or policies requiring co-operation, which advances the great causes of mankind and urges its slow progress towards perfection. On the other hand, when some maladaptation in the individual to his surroundings throws him out of the main stream of right action in consciousness, we learn from the teaching of recent authorities on psychoanalysis, that the human instincts which are the signs of its operation in the individual, often store up power, like a bent spring, under moral repression and influence his particular course of conduct in anarchic ways.

From the point of view of economic behaviour, neither one nor the other tendency can be left out of account, because, like all fundamental forces, their general effect is to influence men and women to act in combination, and they become important factors in forming Group-Values and Demand. Whenever they are rebellious, their origin is generally attributed to the survival of certain faculties, now harmful, but once useful in the past history of the race, reaching back into dim recesses of animal life.

There is no unanimity among the pundits as to what these forces are. It is not even a matter of agreement between them whether our obscure instincts can be ranged in two serried armies, under the rival banners of Ormuzd and Ahriman, or whether they all obey one single leader.

Dr. Freud, in a passage sometimes forgotten or neglected by his followers, takes pains to dissociate his views from those of Dr. Jung on the ground that the latter is a monist pure and simple, attributing all conduct to life-instincts. Dr. Freud professes himself a dualist from the beginning, opposing life-instincts by death-instincts. Even this attitude, however, he declares expressly to be a provisional one. "We suspect that there are in the ego other instincts than those of self-preservation; only we ought to be in a position to demonstrate them . . . It remains an awkward fact that analysis

up to now has only put us in the position of demonstrating one kind only. The conclusion that there are no others is one to which we do not assent." * This profession of an open mind, in a work published in 1922, should be convincing proof that among psycho-analysts Dr. Freud is not to be reckoned as a teacher of monism.

The importance of this declaration by the founder of the new science is, to my mind, that it is thereby both rescued from philosophical fatuity and rendered able to afford to the followers of more orthodox psychology an opportunity for alliance with the fresh ideas introduced. To claim that the novel features of psycho-analysis are sufficiently established to make a clean sweep of all the work of the same kind that has gone before would deprive it of general interest. We should have to wait silently for its subsidence to a more intelligent level of sobriety.

Given the principle of dualism, there is room for compromise between the old views and the new. Other features may be found in the Unconscious Self than those which seem to compel us to think of our subterranean selves as something to be hastily amputated.

To the instinct of life preservation Dr. Freud opposes the death-instinct as a positive one, the instinct of letting go, of seeking release from tension. He speaks of original life as an effort, painful from the beginning, to maintain a state of tension ; this effort seeming to be provisional on the accomplishment of a task ; the release instinct coming at an appointed period ; life being a contest between the two. I can well believe this to be a true description of fundamental existence.

A plea for an even wider interpretation of dualism comes to us from America. Dr. Woodworth, writing probably before Dr. Freud's recent work, says that " Freud's analysis of human motives is very incomplete. He does not clearly recognise the self-assertive tendency which, as a matter of fact, is subjected to much suppression from early childhood all through life."

* "Beyond the Pleasure Principle," pp. 67—68.

Dr. Freud's recent admissions, however, would find room for dominance or self-assertion as a deep instinct. His writings on Group Psychology in 1921, indeed, show a laboured attempt to bring the horde organisation under the sexual theory. He asserts that the psychology of the group is the oldest form of psychology, and, further, that rational factors do not explain the behaviour of the individual in the group. The belief that dominance is a primary instinct and submission a secondary one would solve these difficulties.

It would be a mistake for me to broach a new theory on a subject, thorny in itself and as yet offering so much matter for dispute among experts, if it were not of prime importance in determining Standards of Life and Comfort, particularly as touching the points of opposition and agreement between the standards of the two sexes. On these standards depend much that is important in the Moral Element of Value. A close examination of the rivalry and compromise between the masculine and feminine ideas of Value will ultimately throw light on, among other things, the problem of population.

Allying these fundamental ideas of life preservation and dominance with the more prevailing doctrine of the urgent instinct of reproduction of the race, we can account for three primary instincts. Adopting, also, the principle of dualism, we should have, in addition, three derivative instincts of human nature. In each pair is seen a natural and implanted tendency to rivalry between the sexes. The solution must be sought in a union between the two groups of diverse instincts in order to provide the basis of family life and of social-economic behaviour.

SELF-PRESERVATION is an instinct prompting all living creatures not afflicted with disease ; it is stronger and more prevalent in extreme form among women, whose purpose in life is to avoid fighting, to seek shelter, and to protect their young.

According to the Freudian theory of dualism, the opponents of life-instincts are the death-instincts hovering over existence. It is evident, however, that the death-instincts cannot always,

or even often, win the battle, else life would be extinct, or on the way to extinction. His death-instincts must, therefore, be interpreted as being always in a state of provisional suspension. Under this aspect his theory fits very closely the facts of life. With due deference to his authority I should prefer to rename his death-instinct as the instinct of accomplishment. This instinct, therefore, is not to be described as opposing the life-instinct, but rather as being derivative from it and secondary to it, with a strong tendency to act as a check upon its own primary form.

ACCOMPLISHMENT of a task is more characteristically the aim of men. Life is not negligible to them ; but willingness to take risks in its conduct is a primary masculine duty which extends into civil life. In the highly developed life of ants and bees the male in some species loses his life in the natural course immediately after a fulfilled task. The tendency to seek release from life after accomplishment is obviously not strong in healthy men, but it is present in most of them, and accounts for much in literature and art.

The instinct of accomplishment is plainly derivative from the instinct of self-preservation, because the former is directed towards objects which indirectly, and in their ultimate purpose, aim at the continuance of life, and vigorous life. It is possible that in strong men the call for release should exist strongly, side by side with the overriding determination not to let it have its way until after accomplishment. Life is not valued highly except for its purposes.

PARENTAL INSTINCT in all races is naturally more widely spread among women, whose sexual inclinations are generally limited by its exacting duties and responsibilities.

SEXUAL INSTINCT is frequently more pronounced in men than in women, and exists as a superabundant derivative of the parental instincts. In the animal history of man the readiness to produce more than one family must have played its part in saving species and races from extinction. There are ample traces of it in anthropology and history.

There is no reason to give this particular instinct the universal predominance taught by many of the psychoanalysts, nor even to speak of it as primary. Its urgings are not so markedly unnoticeable in consciousness, nor so effectually suppressed in social life, as to constitute any new problem in subliminal psychology. People have written about the general difficulties of the subject before the twentieth century. Its effects on economic behaviour are small relatively to its social importance, and aberrations from the family instinct, like all forms of unwise self-indulgence, for the most part lose themselves unfruitfully.

The *DOMINANT* and *SUBMISSIVE INSTINCTS* are plainly to be observed as primary and derivative respectively. In all warlike states of existence only a few can persist in dominance; but in the realm of Values keen struggles continue without decisive result. In matters of sex-rivalry a considerable number of men assert their dominance over women, partly from superior economic efficiency, from their greater power of concentration, and partly owing to their instinct for accomplishment, as preferable to mere survival. There are also a very few dominant women, whose patient adherence to moral against all vagrant issues brings them social and political superiority over others of both sexes. The mating of sex-standards, which involves a perpetual mimic struggle, usually ends in some form of compromise sanctioned by social custom.

The chief proof of the separate validity of dominance and submissiveness, as instincts, lies in the prevalent force of the emotions of anger and fear. Neither of these emotions can reasonably be held to be carried through to survival by their usefulness. In different situations both are dangerous to their possessors. Races and individuals have, in frequent vicissitudes, survived by the use of one or the other, but guiding reason must have had everything to do with controlling both.

Anger, as the excessive emotion of dominance, is dangerous to its possessor except in moral directions. It thus becomes

potent in private and social life. In its mass-forms it sways political sentiment and determines economic movements. Its fountain is certainly in the Unconscious Self. Fear, on the other hand, is not a product of the Unconscious Self, which is incapable of it. Fear arises from the attempt at adaptability in consciousness of the dominant, which cannot succeed in being dominant. Its survival, as an emotion, is due to its unconsciously drawing on the unconscious powers of its own primary form. Fear is, therefore, the excessive emotion of submissiveness, which is the secondary form of dominance.

To say that submissiveness is a secondary form of dominance implies a willing connection between the two, which is, in fact, the essence of the existence of both. Dominance controls submissiveness for the good of both; submissiveness accepts dominance for the same reason. Not unnaturally, the relation is not an easy one to establish.

Against any form of dominance by individuals in the political world democracy sets its face like a flint. All ranks and dignities are relegated to ornamental positions as public officials. The haughty manners of the proud are curbed by prudential civility and political subservience. Wealth and enterprise learn to conceal their superiority in all but the display of expenditure.

Since dominance by individuals, in its crude form, is no longer openly possible under civil democracies, a condition at which all economic progressive states have now virtually arrived, we must look for a tacit and group tendency towards it as frequent. There is no difficulty in finding it.

Civil democracies do not permit the kind of internal conflict which simply and naturally brings forward the true dominant. It is probable, therefore, that the true note of democracy is not, as is generally supposed, equality, but universal dominance. Contestants for a certain kind of dominance are not hard to find; it is the submissive characters that Diogenes would have to seek with his lantern. Women and children have caught the prevailing note and assert their

rights of independence with economic consequences which are far-reaching. The movement is irrepressible, as it arises from deep-seated instinct.

It may be pertinently asked : Why consider these instincts under the heading of an Unconscious Element, since there is plain evidence of their existence in conscious feelings ? This question would have been difficult to answer twenty-five or thirty years ago, but during the intervening period an increasing light has been thrown on the unconscious self and the operations of its instincts, from which an overwhelming inference must be drawn that, while their effects appear emotionally and otherwise in consciousness, the force of their action lies in innate activities entirely dissociated from consciousness.

We have always been aware that the repression of these instincts caused immediate distress and pain, nor was the connection between distress and repression absent from consciousness, but we had not then the same body of evidence, as to the timeless persistence of the instincts themselves, nor as to the force with which, when suppressed, they reappeared in emotional storms, called complexes, causing neurotic pain and helplessness. With the medical side of this study economic behaviour has little to do ; but what shows itself, as aberration in the individual, has social persistence in well-known mass effects in groups of men and women.

The mass-effects are not the only effects whose force is derived from the unconscious self. There are also currents having the same origin, antagonistic to one another, whose study demands attention. It is the mutually antagonistic currents of feeling, arising from unconscious instinct, which we must examine first.

Taking the six instincts in pairs, it is evident that the *SELF-PRESERVATIVE* and *ACCOMPLISHMENT* instincts are not in absolute opposition to one another, otherwise there would be no survival for the latter and only the overlovers of life would persist. The accomplishment instinct

represents provisional attachment to life. It is certainly not unknown to Christianity, as saints and martyrs have testified. Among well-known great men, it was exceptionally conspicuous in Julius Cæsar, who, when a youth, refused to evade Sulla's proscription by submission, and only fortuitously escaped an early death. After carrying his life in his hand during his foreign wars, he took no steps to crush the final conspiracy for his assassination as he might have done.

In economic life the phenomenon is not infrequent under the nervous pressure of business or other duties. Many men continue, against warnings, honourably to overwork themselves to provide for their families or for some single-minded ambition, as not valuing life beyond the desire for accomplishment. With the considerable exception of readiness to resist any threat of sexual danger, this instinct is not common in the other sex. The attachment to life is very strong in women by nature, both for themselves and even more for others.

There is no development of any deep antagonism in this pair of instincts, unless the desire for accomplishment links itself with degenerate impulses. Dr. Freud is, however, right in my opinion in considering that the tendency to relax tension, in other words, to cease effort and life, is positive and not a mere lapse from the instinct of self-preservation.

The second pair of instincts, *PARENTAL* and *SEXUAL*, usually run in harness, but, when they do not, there may be violent opposition, as the social history of all ages amply demonstrates. The attitude of conscious democracy towards the social evil is by no means defined. The contention put forward by Mr. and Mrs. Webb, that it is directly due to the capitalist organisation of society, is not entirely without foundation, but is probably not broadly true. Feudal class divisions have had more effect in this way than any other cause or any economic order. The existence of the social evil in nearly all countries and climates seems to be the one gigantic human fact which carries with it comparatively small economic consequences. It can, therefore, not unreasonably

be inferred that vast economic changes would not naturally and necessarily have any reciprocal reaction upon it. Even if the entire economic independence of women were brought about, which is unlikely, the evil might well take another form. We may conclude that the antagonism between this pair of instincts, where it exists, has no essential character, nor any special effects on economic behaviour, beyond those discussed later under Standards of Comfort and Standards of Sex.

The third pair of instincts, *DOMINANT* and *SUBMISSIVE*, are antagonistic almost by the attributes of their nature. Their antagonism has a deep economic effect. It lies at the root of the opposition between Capital and Labour. It may be questioned by some inquirers whether submissiveness is naturally an instinct, but any one who takes our animal and anthropological records seriously can hardly doubt it. It suffices for the leader to show himself conspicuously in order to secure a following.

Democracy does not so much deny leadership as enforce a demand that it shall go in rotation, which does not satisfy the human heart. It likes to treat its political rulers as circulating rather than permanent officials ; its military captains as civilians with temporary commissions ; and its leaders of thought as subservient and underpaid domestic pets.

In the Latin countries it has a deep suspicion of statesmen and politicians, and, to a smaller extent, of military heroes. In Anglo-Saxon countries its distrust is rather directed against pre-eminence in intellect and art, unless these are securely harnessed in practical utilities, such as chrematistics, pædagogics, politics, therapeutics, or wholesome amusement. It seems to concede wholehearted admiration only to fugitive and ephemeral qualities, such as athletic prowess and endurance, beauty and histrionic success, fashion, fiction and film eminence, journalistic enterprise, and the great goddess of Luck.

In other words, democracy has at present determined intolerance of any enduring domination. This probably is not a permanent characteristic of the masses, whose instinct to

follow chosen leaders is very profound. It is certainly increased by the prevailing unrest which the war has reinforced for a generation. The historic precedents for choosing a leader are definitely overthrown and some new method of selection will no doubt appear.

In economics, the solution will come through more skilled disintegration of those higher ranks, which are often inclusively called the capitalist class. The true industrial leaders will separate themselves more effectually from the holders of realised wealth, whose co-operation in production will then not necessarily be identical with the position of employers, and thereby become more acceptable to the large majority of labouring men.

Potent as are the self-contradictory spasms and dire energies drawn from the conflicting instincts of the unconscious self, the mass-effects arising from harmony within them are by no means negligible. In a more settled state of organised civil life, and under more durable conditions of economic behaviour, the latter may even exercise a permanent influence equal or superior to that generated by the former. Time will show. We are still far from discarding our special internal economic antagonisms.

The mass-effects of economic instincts exhibit themselves more in the commercial than in the industrial world. They govern the world of fashion and habit; two terms denoting periodical alternations of commercial psychology. Habit is a power which resists change and, if uninterrupted for sufficiently long a time, will become crystallised under iron-bound custom. Acting counter to this deadening tendency, the more frivolous temper of modern times insists on the occasional pleasures of surprise, a mechanical and methodical surprise, which, under the guidance of commercial enterprise, appears with the seasons of the year and comes apparently from nowhere. The new fashion, whatever it may be, becomes a habit almost solely through mass-effect, and lives its short life until moved on by a higher power.

The supremacy of feminine fashions in dress is obtained solely through its instinctive origin. It is very much subject to the impetus of example, but the apparent leaders of society have very little to do with its inception. It is created solely for the delectation of women by men in the background of some mysterious organisation. Large sums of money are annually paid to skilled artists for its designs, yet the artistic results are not strikingly apparent. I think the secret of its power is due to the fact that it is wholly anonymous, and, consequently, the authority which ordains it is beyond inquiry or criticism. Fashions in food, fancy articles, fiction in literature, and the lighter arts, have the same history and run a similar course. Although their economic output, measured in wealth, is enormous, it is unnecessary to speculate deeply on their origin or final cause.

Section 3.—THE MORAL SUBCONSCIOUSNESS

Moral consciousness consists of two faculties, of which one is already well known and studied under the name of conscience or the moral sense. The other still remains very much a problem, both physically and psychologically, as the register of the amount or balance of pleasure and pain or discomfort, alternately undergone by the central human organism. The latter register of fact supplies the material for the former sense, which passes judgment and places it on record. Both facts and judgment are almost entirely, as far as we know, present in consciousness; but the register of fact and the record of judgment pass away into the unknown, where they seem to possess a timeless and hardly destructible existence.

The passing of pain into pleasure was mentioned on a poignant occasion by Socrates, when the gaoler released him from his fetters in order to give him the cup of hemlock. The passing of pleasure into uneasiness, and even acute discomfort as satiety, is a frequent experience. What we are not equally conscious of is the existence of something like an automatic *cæsthesiometer* within us, which not only records all sensations,

giving amount of pain-discomfort, but registers the balance of transactions at any moment in our moral subconsciousness.

Accompanying the action of this unvarying recorder of the balances, which never ceases its operation, there is an equally untiring *æsthesiotat*, whose function it is to adjust anew the receptivity of our organs to pain-discomfort in counterpoise to the exact position of the recording point of our balancing mechanism at any moment, tending always to a restoration of the sum of pain-discomfort sensations to a normal working level, which may have some relation to the maintenance of the normal working level of the temperature of the blood at 98.6 degrees Fahrenheit. The less accurate adjustment of the blood-pressure to abnormal strains represents possibly an elastic, comparatively inefficient, power of adjustment of our bodily conditions to this system of hyper-æsthetic variations.

Whatever may be the organs by which it is operated, the *æsthesiotat*, as we may call it, tends to restore the balance of sensibility some time after, perhaps soon after, the incidence and endurance of pain or discomfort, and sometimes to readjust with the utmost swiftness after agony the new capacity for gratification, so that the recurrence of pleasure from new and unexpected sources and from minute origins is multiplied and heightened.

With prolonged enjoyment, and especially after the search for exquisite pleasure by the libertine, the sensibility to irritation, annoyance, and considerable discomfort from trifles is similarly increased. The grasshopper shall become a burden. The power of endurance of pain is very seriously weakened.

We have absolutely no knowledge of how the record of this balance is kept, but the reality of its existence becomes a matter of faith for those who have been taught by wisdom to submit to the endurance of evil and suffering ; few, who have gone through the experience, have any doubt that the register is accurate and the records ineffaceable.

Of pleasure itself our knowledge is small, because its content is illusive. Our perceptions also, of the steps from pleasure to

discomfort or pain, are blunted by their complication. We have a generally present consciousness that the progress from one to the other is desirable, or the reverse ; but even this is not absolute, and our current opinions on the question are subject to frequent revision.

Pain itself is knowable in a broad fashion under the experiences of the organs of sensation,* and its intensity can be roughly graded ; but the state of physical unrest, which rises into more or less acute discomfort, is not so easily described, nor are all those variations from the state of equilibrium which constitute moral and æsthetic dissatisfaction. Who can justly analyse the expression "triumphant over pain" ? Who shall describe the nature of fierce joy, or of some acute pleasurable sensations, with their overtones of moral pain ?

Dr. Freud writes that he would willingly acknowledge his indebtedness to any philosophical or psychological theory that would tell him the meaning of sensations that affect us so powerfully. He quotes Fechner's definitions as approximate to the truth : "That every psycho-physical movement rising above the threshold of consciousness is charged with pleasure in proportion as it approximates—beyond a certain point—to

* How complicated these organs, as I have called them roughly, may be, we only partly know. Dr. Head, with the late W. H. Rivers, conducted experiments (1903-8) which tended to establish three systems of sensibility :

(1) *Deep sensibility* carried by afferent nerves along fibres in muscles and tendons, associated with the muscle sense.

(2) *Protopathic sensibility* recording diffused, and often exaggerated, sensations in response to cutaneous stimuli.

(3) *Epicritic sensibility*, to whose impulses we owe the power of cutaneous localisation and of discrimination between narrower grades of temperature. (See Henry Head, "Studies in Neurology," 1920, vol. ii., p. 334.)

In his later work ("Instinct and the Unconscious," 1922), Rivers came to link up protopathic sensibility and its "all or nothing" principle with human instinctive origins, believing that it was overlaid by the more highly developed epicritic sensibility allied with the characteristics of cerebral intelligence. It is not certain that this was his final view. (Rivers, "Psychology and Politics," p. 173. Note by Dr. C. S. Myers.)

complete equilibrium and with pain in proportion as it departs from it beyond a certain limit."

So, too, the mild aspects of either discomfort or pleasure defy definition. Pleasantness seems to be the general condition, where our neural adjustments are directed towards letting things stay where they are. Unpleasantness goes with an adjustment towards riddance. And we are told that these adjustments probably take place in the thalamus.*

We cannot get away from a description which, so far as we yet understand it, indicates a wholly subjective state. The broad fact remains that, under the slowly changing conditions of individual psychological history, in other words, what is generally known as the formation of character, our capacity

* Cf. Henry Head, "Studies in Neurology." 1920.

Part II., p. 597. "We believe there are two masses of grey matter, or sensory centres, in which afferent impulses tend to evoke that psychological state called a sensation. One of these is situated in the optic thalamus, whilst the other consists of a considerable area of the cerebral cortex."

And again :

Part II., p. 601. "We believe that the essential organ of the optic thalamus is the centre of consciousness for certain elements of consciousness. It responds to all stimuli capable of evoking either pleasure and discomfort, or consciousness of a change in state."

And again :

Part II., p. 602. "Afferent impulses, on their way from the periphery to the cortex, pay toll first of all to the unconscious co-ordinating mechanisms of the spinal cord and the cerebellum. Then, after being regrouped at the thalamic junction, they act upon two terminal centres. One of these, the essential organ of the optic thalamus, responds to all those elements which can evoke consciousness of an internal change in state, more particularly pleasure and discomfort. Sensory impulses then pass by way of the internal capsule, to act upon the cortex, and these are the afferent materials out of which the cortex manufactures the forms of sensation, with which it is concerned."

And again :

Part II., p. 642. "Until recently the part played by this organ (optic thalamus) in sensation was unknown. But we now recognise that it is the seat of those psychological processes which underlie crude sensations of contact, pain, heat and cold, together with the feeling-tone they evoke."

See also pp. 664-667, *ibidem*.

for receiving innocent pleasure wanes and waxes, our relish for recondite or depraved pleasures may grow or be effaced, our natural shrinking from disaster may be reinforced. The register of æsthetic capacity, which we carry within us, supplies the standard of enjoyment possible at any moment of time, fixed by innumerable impressions of serried and balanced sensations, which no memory can completely recall and disentangle, no passionate desire can alter, no prayers can rectify.

So, too, the moral sense, or the still small voice of conscience, carries with it a Rhadamanthine attitude of mind created by numberless judgments on our past states of pleasure-discomfort. We may not be able to recall them, or to weigh them, but our opinions about them are quite definite. We refer them to a cause within us or without us, as the case may be; we judge them by standards utilitarian or transcendental, and the moral experience of these judgments remains as a permanent possession.

With these two instruments of our inner life, which cannot by any stretch of imagination be referred entirely to consciousness, we construct our moral system and plan our scheme of economic life, and enforce it by persuasion or example, by suggestion or command, on the group of people with whom we live.

Section 4.—SUBLIMINAL CONSCIOUSNESS

If I were disposed to be jocular, I might describe this faculty as the agency by which very clever people see ghosts or communicate with the supernatural world. This careless mental attitude to a certain class of psychical phenomena is impossible to me, after having heard the late Mrs. Verrall take part in a discussion on the simultaneously transmitted cross-correspondences between her own automatic writing, that of Mrs. Piper in America, and that of a lady known as Mrs. Holland, at that time in India.

As to the absolute psychological value of these scripts I will

not argue. I attached, and attach, no importance to them myself, a critical frame of mind as to subject-matter, which rendered the earnest and confident attribution of some real spiritual meaning to these phenomena by Mrs. Verrall all the more impressive to me. There could be no question that, to this trained and highly-educated woman, her own automatic writing seemed to have an independent existence and importance wholly outside any effort or consent of her own greatly gifted upper consciousness.

Two inferences from this personal communication seemed clear to me at the time, which I have not had occasion to revise since, although I may not consider them equally convincing to others. The first confirmed my belief in the existence of two or more dissociated states of consciousness within a mental subject of the first class. The second posited the existence of a rather meaningless and roundabout faculty of communication between one subconsciousness and another without any admitted and apparent method of communication between the two conscious minds. There is a considerable amount of first-class psychological evidence available to establish the first, but less for the second. I regard, however, this second phenomenon as sufficiently probable to be the efficient cause of well-known mass-effects, which are of considerable importance in certain phases of economic behaviour.

I am inclined to believe that the psychological material, or stuff, with which the subliminal consciousness deals in its traumatic or pseudo-traumatic conditions, must all be obtained, like dream-material, from weak impressions in consciousness, too weak to be distinctly recorded, much less subject to recall at will in full consciousness. Out of this plastic material the subliminal consciousness, in some rather inefficient way under the inspiration of feeble, wholly unmoral, apparently mischievous, dynamic impulses, constructs a curiously connected web of fancy, generally irrelevant to the normal existence of the individual, who is nominally responsible for it.

That this parody of a consciousness can be connected with

the unconscious self is improbable, because the opposite characteristics of the two are weakness and strength. An efficient combination of them both, actively in the individual, might make life unendurable. The operation of the subliminal consciousness reveals itself as carrying and apparently manipulating, a web of weak impressions and, under outside stimulation, bringing them suddenly, disruptively, and, it must be confessed, rather foolishly, into consciousness, where their highly dramatic and unaccountable appearance may help to form motive.

The combination of phenomena, emerging from the subliminal self into a consciousness surprised at their appearance, with sincere, but awkward, attempts by their originator to explain them, has strained the capacity of our credulous powers to its fullest extent. The task of reconciling the known and unknown factors in some workable hypothesis has led to various interpretations, most of them inconclusive. The two main outlets, which these efforts at self-explanation have taken, have been spiritualistic; one attributing them to the powers of evil, the other to communications from departed and friendly souls. It is very seldom that an individual, suffering from the recurrence of these phenomena, has the courage to give them the trivial explanation, which is probably the true one, that they issue from an imperfect state of consciousness, which, in dissociation from the normal consciousness, is struggling for an independent existence and for partial control of the same body, which the two dissociated states of consciousness alternately claim as their own.

Section 5.—THE MASS PSYCHOLOGY OF A GROUP

The following is a reasonable explanation of the mass-psychology of a group. A crowd of ordinary men with strong submissive and weak dominant instincts can be startlingly swayed by bursts of passion, especially when some moral suggestion, exciting anger, is made to them. Anger is an emotion that is only quite safe when exhibited in common. In

each individual there is the dormant weak dominant instinct to which, by suggestion, is conveyed some correlation of idea between the subliminal impressions, which are common to him and to the other individuals in the crowd and latent in them all. A swift and unanimous moral judgment suddenly binds them together with a common motive. Action of a violent nature explodes in result.

The common element is the instinct. The link is supplied by the idea conveyed through suggestion, effecting the sudden revival of weakly recorded impressions in subliminal consciousness. The process is completed by the moral judgment which, beginning subconsciously, appears almost complete in full consciousness and is there instantaneously confirmed by the evidence of common opinion and reinforced by common emotion.

In this connection it should be noted that the real link is not generally contained directly in the idea, which, being in consciousness, would appeal only to consciousness with small effect, but it is generated indirectly as a secondary suggestion, proceeding inferentially out of the idea, and arousing thereby a series of apparently independent weak common subliminal impressions which awake simultaneously in many minds the professedly original impulse in each towards the same positive act. The idea suggested should be simple and familiar in form, in order to allow full play for the emotions and to prevent cerebration operating in antagonism to the intended effect.

It is quite possible to argue that the common action of a group is not different from the conjoined separate actions of a number of individuals, each receiving separately, but simultaneously, simple impulses from a common source, applied to each individual singly but reinforced by instantaneous reciprocal impulses, furnished in consciousness by each single agent to every other single agent in sufficient proximity to receive it. The statement itself is sufficiently complicated and the explanation no easier to understand than the other.

The real difficulty lies in the word proximity. In a crowd there is close physical contiguity, but little real mental proximity. There are no ready means of communication between individuals, and no one can really know, through the ordinary operations of mind in consciousness, what other members of the crowd are thinking. It would take hours for a common interchange of honest opinions. Yet the common feelings, and even common actions of a crowd, when skilfully roused, are instantaneous.

I am under the impression that the weight of evidence is against an explanation through the medium only of individual psychology. I accept, without, however, all the consequences which he attaches to it, M. Le Bon's * principal thesis that "the most striking peculiarity presented by a psychological group is the following. Whoever be the individuals that compose it, however like or unlike be their mode of life, their occupations, their character, or their intelligence, the fact that they have been formed into a group puts them in possession of a sort of collective mind . . ."

While admitting the general accuracy of this description, the analysis of the causes of this collective state of mind of a group given by M. Le Bon does not seem to be accurate nor adequate, nor are the qualities so analysed exclusive to one another. He states them to be :

- (1) A common sense of invincible power.
- (2) A liability to contagion of sentiment.
- (3) A peculiar susceptibility to suggestion.

Dr. Freud states very justly that the second and third characters overlap, or that, alternatively, the second depends on the third. He might have added that a similar criticism applies perhaps also to the first and third.

The chief element of weakness in M. Le Bon's explanation lies in the fact that, in his statement of the peculiar faculties of the subconscious states of crowd-psychology, there is no

* "The Crowd" (English translation, p. 39).

quality apparent which is not at least closely allied to, if not identical with, qualities of faculties perfectly well known in consciousness. He attributes all crowd-actions to causes, about none of which is there any exceptional character, exceptional, that is to say, in consciousness. He is, therefore, either unaware of, or rejects the validity of, all those known phenomena of the unconscious self, which are ready to his hand in explaining the psychology of crowds. Instead of that he takes known qualities of the conscious self and postulates their exceptional exaggeration in crowds.

Take, for instance, his third condition mentioned above. If by peculiar susceptibility is meant a susceptibility greater than between two individuals, it is probably not true. Any single individual is most liable to suggestion in the presence of a single individual, whom he believes to be superior to himself in that peculiar comparative relation. The belief may be imposed on him by an experienced agent, but the cause of its existence is immaterial.

The explanation of the tendency towards exceptional co-operation, often exhibited by the collective mind, so far as that is a true description of the psychological state of a group, does not lie in contagion of opinion, nor local proximity, nor common submission to the suggestion of a speaker, although all these may be contributory causes, but in two definite phenomena, one of which is an initial force and the other an accident or other fomenting occasion.

The definite cause is the co-existence of certain common, deep-lying instincts in a group of people. These instincts are, as we know, only part of the unconscious self of each individual; but by their character they are hardly likely to be brought into a condition where communication with one another is easy, unless the stimulus, which is prompting them, urges them in a moral direction.

The occasion is presented by a suggestion, of which the words of a speaker constitute the most effective form, giving an opening for multiple mutual counter-suggestions to arise

among the individuals of a group if they are in close temporal—not necessarily local—proximity. Local proximity implies temporal proximity, but the contrary is not always true ; it is time which counts. The psychology of a crowd links itself on to the psychology of a group. The former is an exaggerated example of the latter. A group, subject to suggestion and mutual counter-suggestion, may be of much less close texture than a crowd ; it may, for instance, be a group of individuals in economic relations exercising Demand.

That is not the whole of the explanation of the mass-effect in common psychological action. All three of the subconscious elements discussed in the present chapter must come into effect. The unity of unconscious instincts ; the approval by the moral judgment through obscure and possibly inadequate channels ; the rapid, perhaps tempestuous, mutual counter-suggestions through subliminal consciousness in some kind of influential contact, such as that afforded by space, time, or the pursuit of the same general idea.

It may be objected that the actions of a crowd are not always moral ; it is unfortunately true. What is even more certainly true is that they always seem to be moral ; agreement, strength, and simultaneous generation of motive, all give that strong effect. When the victim is dead or injured there comes the reversal of the moral judgment. A very melancholy case in point was the occurrence in Glasgow in 1922, when a man in a tramcar was violently done to death because he was, wholly without foundation, suspected of abducting a child.

The time order is the reverse of the logical order. The general suggestion is first implanted accidentally or intentionally by some primitive device in the general consciousness of the group. The intended consequential or inferential special suggestion arising, as if spontaneously, from the original idea, is set to work like yeast in the group, and is multiplied by mutual counter-suggestion from the subconsciousness of one individual to that of another. Without the moral judgment it will not go far.

The operation of the moral judgment is curious, because it acts within the group, both in the general consciousness and from the subconsciousness of each individual. A hasty approval is openly given to the sentiment ; in each individual the unconscious moral sense, derived from past experiences, commences to work without warning or criticism, having all the symptoms of inspiration ; suddenness, strength, and general approval are the combining elements which lead to the common impulse. The terrible power of the unconscious self is let loose without responsibility. The step is taken. The man is dead.

What M. Le Bon calls the collective mind may very well be something more ominously important ; it may not be a group of separate minds fortuitously combined ; it may be a single mind suddenly breaking through the partitions which hold its fragments apart. If any critical reader may suggest that this theory, which I am inclined to believe, is metaphysical, I must admit the contention.

Dr. Freud * designates the joint action of the group as chiefly characterised by two phenomena : the intensification of the emotion and the inhibition of the intellect. That is true. I cannot, however, follow him in his further trail of the argument through the history of herd instincts, the worship of the leader, coming back obscurely to the sexual unconscious self.

I see in his theory no explanation of sudden violence of the kind mentioned above, where leadership was probably absent and premeditation of concerted action was impossible. Nor does this group psychology, in that form at any rate, explain the more gradual growth of Group-Values, so important a feature of economic behaviour, and thus of society.

Section 6.—CONCLUSION

For more than three generations the leaders of the economic world have consistently refused their attention either to

* " Group Psychology " (English translation, p. 33).

economic psychology or to economic psychiatry. Economic behaviour has both its normal states and its pathological states, which have been very keenly studied by the business world. It is only lately that the latter have come within the province of the sociologists and politicians.

The problems of Value and Demand, indicated by the study in Group Psychology of the Unconscious Elements, are, to some extent, pathological. The considerable body of new evidence that has recently been brought to light on the conditions of the individual human mind is of the same character, so that any neglect by economists of this fresh source of knowledge has no scientific justification. Let us examine the diseases of economic behaviour for any new light that may be thrown upon it by the results of recent research.

There is a healthy side to the study of the subliminal consciousness which has been systematically undertaken by the selling and advertising organisations of the world. This will be dealt with in the study of commercial life. The question remains whether there is anything to be learnt from the pathological states. The debt remains to some extent the other way, as I understand that Dr. Coué learnt a good deal of his theory of the power of the imagination over the emotions and intellect, and how it could be controlled, from American men of business.

The pathological side of states of subliminal consciousness is negligible in economics. We have no interest in Léonie 1, 2, or 3, except as to which one of them will do her work well and buy coats and thread from us. Nor has the determination of the limited union of separate personalities in the individual by co-consciousness, as established by Dr. Moreton Prince, any further interest for us than might have, let us say, the solution of the question whether a dog has or has not a soul. The dog in economics is not an agent but an instrument.

One or two broad and simple facts stand out from the miscellaneous welter of information accumulated about the

several layers of personality discoverable in the subliminal consciousness.

Whatever these personalities may be, they are hardly human in the sense of involving personal responsibility. The material out of which they are fortuitously constructed consists of weak impressions from consciousness. Any combining or reasoning faculty which they may show is of low intellectual quality, aiming at frivolous or almost malignant purposes. Their influence on consciousness, so far as it exists, seems to be in the nature of permitting freer communication between individuals in an emotional state, and this fact constitutes their real psychological importance. Lastly, this superior power of emotional contact takes place only during the psychological transition of the individuals composing the group in a superior moral direction ; they come into play whenever the deeper forces of the instincts are urging upwards ; upwards meaning from a lower moral level to a higher one, although both moral levels may be so low that the upward progression may not be easily apparent.

In this respect the subliminal processes are subject to a control which, while it seems to have a definitely positive moral nature, has a singularly low intellectual one. Indeed, any intelligent character at all can only be attributed to it on the basis of Dr. Moreton Prince's theory of co-consciousness, which tends to prove that facts supplied to a subject in one subliminal condition can be handled reasonably in that condition and the result announced in a different one. If simple facts, in other words elementary information, can be communicated, and simple intellectual problems solved in transit between dissociated personalities, we not only have the elements of emotional communication between individuals without knowledge of such communication appearing overtly in consciousness, but also, what is a more startling fact, the evidence must be accepted that very simple reasoning processes can also be effected subconsciously and can produce completed results in consciousness.

The important link in this theory of an underground railway lies in the two powers of the moral subconsciousness which, even during the process of actual mentality in the intellectual sphere above the level of consciousness, seem to draw deeper powers from below or, at any rate, from elsewhere.

The register of pain-pleasure and the moral sense act up to a certain point in the same way. They accept and deal with facts in consciousness. They award judgments of pleasure-content and moral-content on the facts, according to their own standards. They hand on the dual record of separate judgments to the moral subconsciousness, which treats them both timelessly but in different ways.

In the pleasure-record the circumstances or facts are disregarded and the organism itself is adjusted, swiftly and irremediably, so that he who has suffered much pleasure has little power of joy, and he who has endured much pain has some of the knowledge and blessing of God.

The record of moral judgment has a different character. It is almost timeless ; but it has some memory of selected facts, as well as of former judgments, which are not essentially preserved in a time order. It retains, for a period of training, an experimental and, perhaps, prudent character which is not altogether free from the intellectual taint. Sometimes in the young, as in the child Jesus, it may be full-grown with a sense of right and wrong of a character which can only be called eternal. Socrates also did not describe his dæmon as having a time-character any more than a time-origin. The spirit that appeared to St. Paul had a time-origin but no time-character.

For most of us conscience resembles a body of case-law with stable principles growing out of vacillating practice. Perhaps it would be juster to say that a body of case-law is an attempt to construct a common conscience. It seems to me that any useful body of economic laws should incorporate, first, psychological laws of pain-pleasure, which must be laws of Values, Demand, and Consumption. Based on them, in-

ferentially, should be moral laws as to partition of wealth, taxation, finance, currency, insurance, and charity.

The moral subconsciousness is the two-handed engine at the door. The forces behind it are the forces of life, the forces of struggle, the forces of economic behaviour. It is possible to think of them as escaping from repression into activity, a view which tends towards Manichæism ; or, as pressing forward towards their supreme activity under the guidance of experience, which is consonant with various philosophies, tending, perhaps, chiefly to necessity, but not logically excluding transcendentalism.

The exclusion of idealism from economic science has, perforce, come to an end. It had to come to an end whenever the body of the stuff with which it deals came to be known as consisting of the acts and common behaviour of an organism with the capacity of disarrangement of its activities, of disadaptation for its purpose, and of all the faults which may be due to a want of understanding of its nature.

The forces of economic behaviour are the forces of the unconscious self, interpreted in the form of Values. The three pairs of correlated instincts have each their liability to maladjustment, or their difficulty in securing true adjustment, according to the two ways which we select for regarding them. Each of these pairs has its great economic problems.

(1) The perfect balance of function between the instincts of self-preservation and accomplishment becomes in the end the problem of population. There is, at present, a vast development of self-denying research and self-repressive energy devoted to two opposite purposes. On one side there is a unity of medical and sanitary science pressing towards the secrets of prolonging old life and of securing young life, by making the survival of any individual born more probable, combined with the inventive and producing sciences which aim at increasing the necessary supplies of life. On the other hand, there is yet no stay and no lack of single will in forging the sharp tools of bitter war. The slow task of reconciling abundant life with

the high purpose of life cannot be considered outside the province of economic philosophy.

(2) The want of co-ordination in the second pair, the parental and sexual instincts, is generally attributed to an innate opposition between the two sexes which does not exist. Rivalry between male and female individuals, when it occurs, is more often due to the clash of the dominant and submissive instincts, and is not generally of sexual origin. The male is traditionally dominant, and the female, by training, acquires a moral or civil domination of superior regularity of habits which is beginning to be of high importance in politics.

Parental instinct, the desire for the welfare of the young, especially of the young of the sex opposite to that of each individual parent, imposes a limit to the sexual instinct in the enormous majority of women and in a fairly large majority of civilised men. The difficult economic effort necessary to maintain one family in an accepted standard of comfort, allies itself with high moral purpose and extreme social pressure in order to make all aberrations from this social virtue reprehensible and socially dangerous.

The economic reactions which follow on the maladjustments of these instincts have been exaggerated. They are kept within bounds in most cases by the creation and maintenance of the standards of living. The reconciliation of the rival standards of comfort, prevalent with those who are unmarried or childless, and with those who have to support a family, presents probably the chief of our social difficulties.

Economic problems are little concerned with sex or sexual instincts. The average male is subject to the instinct of accomplishment; he is less inclined to be paternal than the female and more inclined to be dominant. The average female is pre-eminently self-preservative, far more parentally inclined, and submissive in the interests of her family.

There may be cross-changes in these tendencies; but masculine and feminine rivalry most often arises, not when the instincts are in equal contrast, but when they overlap in

an unfortunate sense ; as when both aim at irreconcilable accomplishment ; or when both are careless of parental privileges and duties ; more frequently when both are inclined to be dominant.

(3) The great unsolved problem of economic science lies in the region of the dominant and submissive instincts, not as between man and woman, but as between classes of men. It is part of the natural present stage of our transitory social evolution. War hangs round us. Combat is still the solution of many difficulties. The necessity of leadership exists, while the feudal organisation of society, which used to provide the leaders, has shown itself not adapted to economic or social progress.

Probably the chief reason for the arrest of that phase of economic progress, indifferently known as the triumph of Capitalism or the Industrial Revolution, lies in the social ambitions of the successive waves of the newly rich, winners in the free arena of commercial competition. Triumphant possessors of acquired wealth wished to double the parts of feudal overlord, by adoption, with that of industrial magnate, which they had earned by merit. The combination was intolerable.

The instinct of many democracies has refused to confirm this kind of double title to the new claimants of succession to the old. The workers will not recognise the valid dominion of Capital and they have tacitly decided that the possession of great wealth, used in production, is to be the stigma of the common enemy. The decision is truly unsound. Nevertheless the inclination to make the popular visualisation of Mammon stand for much, that does not deserve it, is far from having exhausted itself.

The submissive instinct is, however, just as potent in its operation within us as the dominant instinct, and must necessarily embrace the larger portion of the population. It can only be ultimately satisfied by that form of dominant which will, by consent as well as by superiority, lead the world in

the direction of progress. Progress has always been interpreted as being in a moral direction which implies faith in the moral judgment.

Leaders must, and will, be found whose interpretation of the moral sense should be far higher than that of the average man, yet whose emotional touch with the great instincts of the masses of the people, with the unconscious self in the multitude, will not be lost by want of sympathy.

Every man has in him something of the dominant and something of the submissive which asks for its true complement. It is certain that in the moral field some leaders will appear who will satisfy more than the occasional needs of a generation or two. It is, however, not so certain that the function of natural leader of men will include a very large mental equipment.

The power of reason has often been invoked as the true remedy for the maladjustments, on the grand scale, of the political and economic system. A little reflection on the psychological history of mankind will show that an appeal to abstract reason, in so far as it is not a mere attempt at flattery, is to refer the solution of fundamental problems back to the intellectual capacity of each man.

In our intellectual judgments there is no natural tendency to unity. The reason stands, in this respect, in strong contrast to the moral judgment, where men in the mass have a common emotional life. If men have required true leadership in the past in matters of moral sentiment, in all probability they will need guidance still more essentially in the realm of thought. But in this respect the social machinery of progressive nations is conspicuously at fault.

The former acquisition of dominance by physical or military power by single men, or a few, is at present almost impossible face to face with the organised forces of democracy. Success in economic competition, in other words the acquisition of power by great wealth, is no road to the domination of men.

It is spiritual leadership of a kind, not wealth or intellec-

tual force, which secures a great following. More especially is that the case when a life of hardship or misfortune is added to the advocacy of a popular cause. Undoubtedly the career of Karl Marx, and particularly his disappointments and failure in practical life, appealed to his devotees in precisely that way. No exposure of intellectual bankruptcy could avail to depose him from his double titles of prophet of Revolution and martyr to Capitalism. Together, they gave him the true leadership of larger masses of men than any one for two generations before him or behind him managed to secure.

NOTE TO CHAPTER VIII.

It is evident that in this chapter I am not using the term "instinct" in its strict physiological sense. The inborn association between a definite stimulation coming through one of the higher centres and a bodily activity may be essentially considered to be a unit of physiological instinct referable in human psychology to a more complicated "group instinct," used as a collective term. The "unit instincts" in native human behaviour are not advanced enough to form material for social and economic study.

In human behaviour there is, as yet, no general agreement as to what may be termed "unit instincts." What we know about them has been largely drawn from animals by analogy. The behaviour of a squirrel with a nut, in attempting hopelessly to bury it in a blanket, is supposed, quite wrongly to my mind, to be the germ of the hoarding instinct in mankind; whereas the human hoarding is due to a mental prevision of vicissitude very advanced in motive. Combative and emulative instincts in man are not present by direct descent from analogous animal traits, except by a roundabout process, where they lose their essential character.

Neither do I find the clue to the simple instincts derivately from the emotions. The emotion of fear, for instance, is accompanied by contrary instincts: (1) an active reaction to escape—a symptom of great efficiency; and (2) a passive reaction to submit—leading often to paralysis or the negation of efficiency.

The instincts I name in the text are both collective instincts in the physiological and, perhaps, in the strict psychological sense, made up of simpler, and as yet unascertained, units of native behaviour, and themselves also units of economic behaviour, corresponding largely with the social instincts, as "sexual," "herd," "power," etc., etc. The simpler units of native behaviour rank themselves easily under the social and economic instincts:

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Life Instinct : Uses nearly all the minor instincts.

Accomplishment Instinct : Sums up many ; acquisitive, artistic, curiosity, pugnacity, and ambition.

Parental Instinct : Will also use pugnacity and acquisitiveness.

Sexual Instinct : As apart from parental, when not breaking out into indiscriminate self-indulgence, is sublimated into accomplishment in its various forms. I neglect its aberrations, as not being economic.

CHAPTER IX

THE RECIPROCAL ELEMENTS OF VALUE

THE MENTAL ELEMENT (4)

THE MATERIAL ELEMENT (5)

Il demande dix-huit ;
Il pense seize ;
Cela vaut quatorze.
Il prendra douze ;
Je donnerai dix ;
Offerons huit.

Sumerian Story.

THESE two elements must necessarily be taken together, as there is no means of assigning any logical priority to either. The attraction of the apple on the tree may seem to come from the apple ; yet it really originates in hunger or the desire for enjoyment, educated by past experiences of satisfaction. Without the apple, on the other hand, there is no object of Value.

It is evident, therefore, that part of the Mental Element of Value must precede the appearance of the object in most cases, except with primitive hunger or a crude desire, as for safety or warmth. The Material Element of Value is only a form of the Mental Element which implies a union of perception and cognition with recognition of the qualities of the object and its association with satisfaction. But the Material Element is a slightly different form of the Mental Element from that other form, which decides on some small motor reaction. The motor reaction, as we all know, is equally as necessary to Value as the psychological processes of sensation.

The Material Element of Value is that part of the mental operation, required in the definition of Value, which may be

included under the general term of recognition of the object, as something outside the Self and provisionally desirable, as contrasted with other kinds of things recognised as noxious or to be avoided.

The Mental Element of Value is that part of the mental operation required in the definition of Value, involved in the identification of the Self with the object to that small degree, which is implied in the term : effort to acquire possession of an object. That effort may be small and immediate or great and remote, with all the intermediate stages of character.

The effort of a rich man to buy cigars is small and immediate ; the determination of a poor man to buy his house may involve effort, great and persistent, although the attainment of the result may be remote. Both are Values in the economic sense.

Of the other possible alternatives, great and immediate effort is obviously active Demand ; small and remote tendency to effort has no single direct result except some day to come just within the field of Operative Values. In the interval of time awaiting this contingent result, the small single Value gains strength by psychological combination with others through the powers of the unconscious self. It helps to swell general psychological Demand in the manner already described.

It comes to this, that the Mental and Material Elements of Value are two operations of the mind with respect to an object, but the two operations are not the psychological operations of perception and cognition. Perception and cognition are both, in economics, part of the Material Element which consists of full verification of identity of the object.

Does the optical sensation of a red speck apparently on the top of the tree really represent an apple ?—a good kind of apple ?—a good apple of its kind ?—are the questions set for reply in the material problem.

The mental problem of Value poses a quite different series of questions. Is it really within reach on the tree ? Are there

other apples on the tree ? Are there other trees with apples on them ? Are there many apples on many trees ? Are many trees with apples within easy reach ? Are all the apples on the near trees within easy reach of the ground ?

The first problem is the verification of the object—material. The second problem is the appraisal of the effort—mental.

In the original definition of Value, I referred to a subjective feature in the psychological process, the state of tension in the individual, the brain-storm involving emotional estimates of Value and comparisons of various states of well-being, some implying possession of the apple, others implying abnegation of satisfaction. To what must these be referred ? Undoubtedly they import mental activities, but only in a subordinate sense. The brain-storm is a moral one and belongs to the Moral Element of Value. It asks the main question, Is the apple good for me or not ?

Curiously enough the subsidiary mental operations used in solving this central question are numerous and rapid, but unimportant, because the answer is chiefly determined by instinct, which is all-powerful. Suppose, for instance, to the important minor questions come these replies : The apple is very good ; it is very difficult to get ; there are other apples. The primitive man in us is very apt to reply, as Sappho's lines testify : that particular apple is the only apple for me. If that apple will only last long enough I will never rest until I get it.

That spirit is the essence of Value and Demand and the basis of Monopoly. The explanation of that spirit lies in the nature of the imagination of man, which is governed by visual and other impressions. Given a man of strong feelings, of inflammable imagination and persistent character, the opposition of difficulties in the way of acquisition of a presented object will stamp the image of the desired object and enhance its good qualities, whatever they may be, to the exclusion of the merits of rivals. What form the image may take depends on idiosyncrasy of character or the nature of the supply presented.

A man of the implacable bent described may want a house of his own and land, or a particular estate ; he may want the leadership of the Bar or the Church. He is more likely to want a definite grade of objects, as marking a Standard of Comfort or Success ; a piano ; a motor-car ; a gallery of pictures ; a seat in Parliament ; a high office ; a title or badge of honour.

Leaving the intricacies of psychology aside and coming down to a business basis, the Material Element of Value deals with the rival problems of Usefulness and Utility. Are things always what they seem ? Are they really what we want ? If not, where can we get something of the same kind that is really better ? Or, again, can we get other things of a different kind, which will, perhaps, suit us better and fulfill the wants which we have always been accustomed to find satisfied in the first kind of things ? Are we ever likely to run short of any of those things which have hitherto satisfied our most important needs or our most vivid wants ?

The problem set in the last question leads on to the Mental Element of Value, because it relates not so much to the identification of the true nature and desirability of the object as to the increased effort that will be required in order to obtain it. The appraisal of the effort involves an estimate of all the circumstances which contribute to its scarcity, or cost of manufacture, and/or replacement. As a rule, we do not take much trouble to measure the effort of obtaining objects which are easy to get, or of those which have become necessary to life or comfort, unless the latter threaten to become scarce.

The Mental Element of Value covers a subject which is immense in itself. The field of its operations includes all the commercial and exchanging organisations of the world, as well as the special bargaining machinery, which is necessary to preserve from too rapid consumption objects of universal utility, whenever their Supply appears to be diminishing in relation to the apparent Demand. We are now dealing with the famous laws of Supply and Demand, often referred to as one law, and quoted from J. S. Mill as the Law of Value.

There is one general assumption about the laws of Supply and Demand which, for practical purposes, may be accepted as true ; but it is necessary here to enter a brief, but not too serious, warning against it. It is supposed that their full operation takes place within the sphere of consciousness. It is extremely improbable that such can be altogether the case. We are dealing here with forces whose operation takes place both above and below the line, indicating the plane of consciousness, or within and without the line, which defines its exterior limits, according to the metaphor chosen to give an appropriate mental image of so obscure a subject. The laws of Demand are too elemental to be considered as altogether working in our conscious selves, and Price and Supply, being tertiary Values themselves, must be subject to the same conditions.

In order to show how difficult this problem is, I may, perhaps, quote Professor E. B. Titchener's * criticism of Wundt, on the ground that the latter " has placed the whole mechanism of association in the realm of consciousness, whereas there seems to be no question that, in many instances, the mechanism, or a good part of it, is purely physiological and finds no conscious representation at all."

It is, consequently, not altogether a matter of surprise that in Value, where desires, both atavistic and sophisticated, play a large part, the Mental Element should find itself rather confined to adjusting and calculating functions than be solely, or even predominantly, engaged in those processes which we associate generally with the terms " will " and " effort."

In fact it is, I believe, characteristic of our advanced economic civilisation that energetic executive faculties should tend to be dissociated from any specialisation in an intellectual direction. The men who have made great fortunes are those whose qualities are best described by such terms as " business instinct," " intuition," " self-confidence," " drive," and so on. They are not great calculators, or inventors, or abstract

* "Text-Book of Psychology," p. 394.

thinkers. They get their finance done for them by bankers or brokers. They never trust themselves in law without skilled advice. They buy patents, and newspapers, and sometimes politicians. Their idea of speculating in land is to find out if some one else wants it and to get it first. They are sometimes, as I have found to my surprise, not themselves good organisers, but, knowing the special virtues of good management, they are willing to pay highly to have these duties well done. They have often just the reverse of those qualities which are especially credited to them by the man in the street.

Nevertheless, there is universally one subject in which they are truly expert, and that is the proper appreciation of Values. They do not follow the example of the clever man, who gives the public what he thinks it ought to want, but they first ascertain what large masses of men really want and they take all risks in supplying it in the largest possible quantities at as high or as low a price as will give themselves the highest gross profit which generally coincides with the maximum Demand.

The great princes of construction and production have not concerned themselves much with the combative arts, which are apt to become a pleasure in themselves and, to that extent, divert energy and intelligence into subsidiary channels. I select, as instances, two men of our own generation who have made colossal fortunes by their faith in the public and their instinctive comprehension of what the public needs. I refer to the late Mr. Harriman and Mr. Ford.

Their fields of operation were very dissimilar, but both were broadminded and constructive on an immense scale. Both necessarily worked hard ; but probably not nearly so hard as Aristotle, or Michael Angelo, or Christopher Wren, or Spinoza, or Newton, or Moltke. Both had faith in their constructive ideas, and the instinct which led them to success may be called, in the truest sense of the word, "elemental." Both recognised that swift transportation was the most intense want of the American people ; in the one case by the railway, in the other by the automobile. It was not the Mental Element which was

their instrument of conquest, but something surer and stronger which placed them intimately in touch with their fellowmen.

NOTE TO CHAPTER IX.

Perception and Cognition. I am aware of a difficulty in opposing perception to reaction. It is a matter open to argument whether perception is not itself reaction. It almost certainly involves immediate response to sensation, leading on to further reactions. On the assumption that reactions immediately follow sensation, producing perception, cognition, etc., their logical order, and probably also their time order, are as follow :

(a) Reaction of perception of object, involving cognition and verification.

(b) Reaction of identification of object with idea of Self.

(c) Reaction of motor system, tending towards acquisition.

The common sense view, ignoring too fine distinctions, is expressed by Dr. Woodworth ("Psychology," p. 431). "Perception is knowing the fact, as distinguished from readiness to act"; and "perception is an adjustment to the facts as they are, while motor adjustment is a preparation for changing the facts." In between these two latter processes, (a) and (c), comes (b), the judgment which constitutes Value, occurring at the inception of the period of preparation.

Cognition is a further refinement of perception. Assuming that perception is the next response after sensation, it would be elementary. The apple would be a distant flash of red on the green background of the tree and the brown background of the landscape.

Perception might include a rapid alignment of the eye at an angle from the presumed line of the ground with the inference of height.

Cognition would involve all the qualities of the apple and its recognition as a material object outside the Self, involving a series of special relations between Subject and Object.

CHAPTER X

THE DISRUPTIVE ELEMENTS OF VALUE

THE COMBATIVE ELEMENT (6)

THE EMULATIVE ELEMENT (7)

Anger rush'd ; his eyes on fire
In lightnings own'd his secret stings.

COLLINS : *The Passions.*

It would be a one-sided, but not inaccurate, description of economic progress in the world, up to, let us say, the end of the first decade of the twentieth century, to describe it as passing more and more from the Combative to the Emulative stages of development. Neither of these human characteristics will ever entirely die out of us nor lose their economic advantages, for the plain reason that they furnish motives in abundance for an immense output of energy. When prompted by desire they inspire both individuals and communities to put forth a great deal of the effort that is necessary to constitute Value.

Neither the Combative nor the Emulative Elements are responsible for all the fighting, nor all the rivalry, which is apparent in economic struggles. Mere need is often the driving force which takes a combative outlet ; while even more obviously rivalry relieves tensions of a wholly uneconomic origin with little economic result. When men are driven to war by hunger, as nations and races have been often enough, to call it combative or competitive is an under-statement. This is equally true of the pursuit of ideals. National rivalry is a struggle of accomplishments. They fight and struggle with one another, not because they enjoy it or are inclined to it, but because they must.

The two elements are properly so-called when they operate

instinctively within an economic system from inbred racial necessity, inherited from the long drawn-out period of early struggles for survival. The continuance of these instincts, under circumstances which no longer make them necessary for survival, renders them of transcendental economic importance and supplies the chief part of the motives for maintaining the high standards of comfort in all progressive races. Without them the energetic peoples of the cold and temperate zones would fall gradually into habits of easy luxury, whose prevalence in the negroid races has allowed the riches of the world's tropical regions to fall into comparative disuse.

Present conditions do not always make it possible to distinguish between the struggles which are a real renewal of the fight for life and the competition which does not prevent mutual improvement. The former condition slides easily into war, but continues during prolonged periods of peace in unreasonable and hostile tariffs, coercive restrictions on alien immigration, taxation of foreign trade, and legal disabilities of strangers. Sometimes the offensive tendencies die away; again there are phases of recrudescence of distrust. It is by no means easy to say that in this direction there is a gradual tendency to improvement.

In this study of the Elements of Value I venture to take all these smouldering relics of historic hostility for granted, as being chiefly within the sphere of a special branch of foreign policy and international relations. I confine myself for the present to the consideration of all those indications of antagonism and rivalry which continue within a progressive civilised community in times of peace and settled prosperity.

There is a broad distinction between the action of the Central Elements and of the Disruptive Elements of Value of which I wish to ascertain the economic significance.

At first sight the existence of combative elements in the life of peace seems to be a natural survival from a historic period of national and tribal warfare. This conclusion is helped by the free use of military terms to denote economic develop-

ments. The press, for instance, will write of a prominent group of financiers that : " They are marshalling their forces for a decisive campaign " ; " So and so has a Napoleonic genius for concentration of force at the right strategic moment in the right place " ; " The preliminary skirmishing in the grain market is about over and a battle royal will now begin." All this is literary effort belonging to a historic order of thought of no permanent significance. Traditional ideas of war seem old to us, who have only a few score of hundred years of written or oral records to draw upon. But human character does not draw its fundamental features from short periods of time. The Elements of Value reach farther back than historic times.

The Combative and Emulative Elements in Value derive their power from the instincts of the Unconscious Self, but so much of their operation obviously takes place within the sphere of consciousness, that they may be studied chiefly as conscious elements in the same way as the Moral Element itself. As the Moral Element is undoubtedly the chief Life Instinct, so we must look for the source of the two others elsewhere.

In the first place I should say that, although both elements are disruptive in character and countervail the moral or unifying element, it is a mistake to suppose that they have a common origin from the same instinct. The mode of operation of the two is similar, in so far as they denote struggle, but the aims of the two are widely different.

The aim of the Combative Element is domination of the opponent, ending, perhaps, in his complete submission or destruction. There is no doubt that it is drawn from the Dominant Instinct. It is met by the combination of the Submissive Instinct in the masses.

The Emulative Element is akin to the Spirit of Play, with which it is fundamentally allied. Its aim is to secure the admiration and co-operation of its fellows, and does not provoke opposition but rivalry. It undoubtedly owes its origin to the Accomplishment Instinct, but it is easily satisfied with

success of its own kind, and may be called the great liberalising tendency in social intercourse. As dangerous tendencies of the same spirit, see Mommsen's account of the wanderings of the ancient Celts, inspired by his hatred of them.

Both impulses naturally conduct themselves in their special way when it comes to the problem of mating. They greatly affect Standards of Comfort in family life, and thus touch Group-Values and General Values. It is absurd to refer them to Parental or Sexual instincts, which they often counteract.

Why should these Elements be called Disruptive and be classed together in opposition to the Central Elements of Value? It is precisely because they are equally interruptions to the general stream of life, which shows itself in the formation of Group-Values. Up to a certain point the Life Instincts in the Moral Element of Value draw people together in a common purpose for satisfaction of the great needs of existence. Values group themselves. Demand is growing. Then comes the prospect of a shortage of Supply. It is met by greater effort in production. This effort, if continued, would, in modern times, with the modern immense powers of production, ultimately satisfy a Demand above the likelihood of any immediate maximum. But, across the course of common effort, come the Disruptive Elements, and one, or both, spend their forces in competition for a limited Supply in lieu of patiently continuing efforts to secure the satisfaction of all.

Competition is thus philosophically explained as the breaking loose of the Disruptive Elements in Value. It is not a beneficent deity, as Adam Smith was prone to imagine, providing for the general needs in the simplest possible way. Nor is it a force of original character, as Mill predicated in the Law of Value. It is the complicated resultant of obscure and vacillating forces which can be nothing but Values; and Values, not acting along the stream of life, but athwart its current in dispersive directions.

The problem of how far these two Disruptive Elements may tend indirectly to produce good economic results is most

interesting. The modern trend of converting combative inclinations into emulative courses is all to the good, because it has a centralising resultant. It will be remembered that, *ex hypothesi*, the Accomplishment Instinct is not irreconcilably opposed to the Life Instinct, but agrees provisionally so long as its terms are conceded. Those terms are generally resolvable into a desire for a higher kind of life.

It appears, therefore, that both the Combative and Emulative Elements of Value may be ultimately directed into the main stream of progress. Are the ascertainable facts of economic behaviour sufficient to confirm this optimistic conclusion ?

At what stage in the determination of Values these two Elements begin their operation is an important point to be noted. It is not at the stage of perception or cognition of the object. Abundance of the object may render competition unnecessary. Rivalry will commence only with the subsequent motor reaction. The effort required to seize or acquire the desired object may not be simple. Opposition may have to be overcome. Emulation may ensue. At such critical passages the Disruptive Elements are not easily kept inside the banks of the stream of human progress.

In the individual, especially if he be a man, it is common to find the Dominant and Accomplishment Instincts acting together, although essentially distinct, for a common purpose. This combination denotes the peculiar masculine tendency. The alliance of the two instincts may unchain energy of a maximum amount for a more or less short period ; only in a few exceptional men have these qualities any persistence.

When either characteristic or quality, or both together, have any persistence in an individual, it is improbable, since neither of them has essential opposition to the Moral Element, that they can, while possibly fortunate or unfortunate to the individual in his private career, operate in a general sense contrary to the great stream of life, or, in other words, against general economic progress. It is the weak dominants,

or the professors of pseudo-accomplishment, who are frequent enough and have the instinct of personal survival by combination, that may delay progress by leading others in wrong directions.

With the break-down of age-long traditions, and the break-up of powerful and highly organised political institutions after the Great War, the world in general, and, in a peculiar sense, the economic progressive systems of Europe and America, are suffering, and will continue to suffer, from new contests for leadership. A great many old lessons will have to be learnt again. At the same time, much new energy has been set free, both among natural dominants and natural submissives, which, if it can be harnessed in time to the economic chariot before it has kicked the wheels and axle to pieces, may lead us more rapidly to a world with higher purposes and more successful performances. The experience of great world-struggles in the past does not invite us to expect any easy passage to a more serene atmosphere.

CHAPTER XI

THE EXTERNAL CONDITIONS OF VALUE

Was uns alle bändigt, das Gemeine.

GOETHE.

THE dual character of Value having been established, one of the two analytical processes, required to determine its nature, remains to be completed. It concerns the investigation of the true nature of all the external circumstances which are necessary to its creation and full development.

In the chapter on Price, it was stated that the most potent characteristic of Values, which does not lie on the surface, is that moral or subjective self-conditions preponderate, in their influence in determining Values, over that of the external or objective conditions. The self-conditions I have named the Elements of Value, and they have been treated at some length but by no means exhaustively. The external conditions, although complicated enough, lie sufficiently patent to the view to be dealt with more shortly.

They appear to me to come under three headings.

The first is often supposed to consist of two parts, which really are one. The parts are Usefulness and Desirability, combined under the term "Utility." At last we have come to something which is related to what may be called the properties of matter or the qualities of objects, but even here there is a strong subjective element.

What attracts the vagrant under the apple tree is the glint of rosy red against the sky above him, which, by intuition and analogy from former experience, he concludes to be the well-known sign of a succulent and nutritious apple. But, when, after exhausting preparative efforts, he obtains it, it

may be neither one nor the other, or it may have either one of the two qualities without the other. Each of the qualities separately, though singularly diverse in their power of satisfying him, will fill an appreciable gap in his needs, but what he truly wants is both. The economic term "Utility" is held to cover them both, but in a fashion which requires some ingenious explanation. A whole volume on modern trade might be written about their likenesses and their differences.

It has been remarked before that the Elements of Value have, by hypothesis, a common origin within the self, while the Conditions of Value on the same hypothesis are externally postulated. To come down to everyday language, they are rough outside facts with which Value has to deal, no matter where they come from.

There is no logical relation between any of them. This want of connection is particularly obvious in the case of the relations between Utility, which is in the nature of a quality, real or supposed, of the Object, and Scarcity, the second Condition of Value, which is an outside circumstance; outside, that is, not only the Self or Agent, but also outside the Object. While Utility is outside the Agent but within the Object, Scarcity is outside both Agent and Object. The Value of a piano in London is maintained by the qualitative fact that it is by a good maker and in proper working order; but its Value would be even more dependent on the wholly exterior circumstance of the numbers of other pianos in London, whether five or 50,000.

The third Condition is again wholly independent of the other two, so as, in fact, to have no logical relation with either of them. It has, so far as I know, never been mentioned in connection with Value before; its existence and prevalence are undeniable; its definition is by no means easy. I refer to the necessity of some Sanction for the Enforcement of Contracts, which may be moral, customary or legal. Its need is most apparent in those cases where it is wholly or partially

absent, either through the existence of general anarchy or by the specific withdrawal of legal or social protection in a community otherwise completely organised for the general maintenance of Values.

Some private protection of contracts is never wholly wanting, because there is always a man's word as his bond. Personal honour in commerce has an immense Value in unsettled times and places, and never wholly loses it in the most civilised communities. Its validity is always somewhat dependent on the proximity, in time and space, of the two parties, unless the contract is duly and effectively protected by legal confirmation and the obligation of public opinion.

On the other hand, some contracts are not protected because they are declared to be immoral, or because they are held to be unconscionable and their terms may be considered exorbitant, or simply because, under certain circumstances, human nature will not countenance the services being withheld of which they are the subject.

(1) *UTILITY*.—Value, according to Jevons, is, after all, but a development of Utility. In his discussion, however, of the nature of Utility, he does not advance our knowledge very happily. Although he does not exclude Usefulness from the idea of economic Utility, he makes it clear that Desirability is the more important part, in fact the indispensable part, of Utility. Consequently it might appear that Desirability was Utility and that Usefulness was merely a haphazard concomitant of Utility, and, therefore, not a part of Utility itself. Under these circumstances, it seems wholly unnecessary to import a word "Utility," which bears some undefined relation to Usefulness, when the term "subjective Desirability," or "Desirability" alone, would equally serve the purpose. It remains obvious, therefore, that, as Jevons uses it, the term "Utility" is only imported for one of two reasons, either to satisfy prejudice, an unscientific procedure, or because he thinks, as most of us irrationally do, that, where Desirability appears, Usefulness should morally come trailing along not far

behind. In fact, he never tackles the real problem of determining whether the presence of Usefulness in Utility is necessary or contingent, or even wholly repugnant.

The reason for his complete failure is that Jevons has inverted the problem. Value is not a development of Utility ; but some degree of Utility, even if it be not the fully developed Utility subsequently to be described, is the first and necessary condition of Value. Utility is the counterpart, present by hypothesis in the object, which enables the subjective relationship of Value to be established. Value arises in the Agent as the combination of the feeling Desire with the resolve of Effort in relation to an Object whose real existence is posited in the existence of Value. Utility in the Object is implied by the hypothesis of its real existence.

Now we know, from observation of economic behaviour, that the presumption of Utility in the Object, which involves Desirability of the Object, must be followed up by some satisfaction in its attainment, otherwise one or two disappointments of expectation in acquisition will cause Value, as a rule, to depart from that class of Object for any Agent of sufficient experience. Obviously, therefore, Usefulness of the Object must follow not long after the original Desirability during the process of Acquisition, which involves also the flux of time. But the Usefulness of the Object may not be the same Usefulness nor the same kind of Usefulness which appeared in the mental vision of the Object described by the term "Desirability."

We thus have three stages in the creation of Value-Utility for a class of Objects in respect of the Desire, and Effort, and Acquisition of one or two Objects of that class for an Agent. The Utility, therefore, of an Object, in order to be substantial Utility, must realise two or three stages : (1) Desirability, (2) Usefulness for the purpose required, and/or (3) Usefulness or capacity for the Satisfaction of some other want, felt or unfelt, before. The first stage is necessary ; the second stage must follow if Value is to be sustained or repeated ; the third

stage is wholly contingent, but occurring so often in real life that it must be reckoned as one of the great maintainers of Value.

To use a reasonable simile, Value is caused by the perception by the Agent of a gap in his scheme of life, and by the connection in his mind of this gap with a particular Object. The function of the Object is successively :

- (1) To appear to fill the gap : Desirability for a purpose.
- (2) To fill the gap : Usefulness for that purpose.
- (3) To fill another gap : Usefulness for another purpose.

However fanciful the third stage of Utility may appear for the moment, observation of economic behaviour and a little reflection will prove that in civilised life it is very frequent. In the preservation of the standards of comfort, or the symbols of struggle, a large part of our habitual expenditure is incurred for secondary uses of mere possession or display, which in no way depreciate the Value of the objects acquired. Food is untouched ; clothes are not worn ; linen is not taken out of the cupboard ; books are unread ; pianos are not played on ; silver and jewels are kept at the bank ; horses are exercised by grooms ; yachts are laid up ; houses are not opened ; estates are not visited ; bank balances remain undrawn.

Let no one say that these phenomena appear only in diseased society, among the freaks of the exuberant rich ; nowhere are they more noticeable than among the self-respecting poor, with their unused parlour crowded with objects, none of which ever sees the use for which it was made. Nor are they strange among the climbing class, who are to make the new Values ; the splendid salad-bowl with lobster claws in crimson ; the harmonium ; the steel engravings kept in portfolios ; the Venetian glass ; the walnut presses with drawers full of butterflies ; the " *Encyclopædia Britannica* " ; the " *Dictionary of National Biography* ."

While many economists agree with Jevons in treating Utility as if it were primarily Desirability, which implies that, in certain circumstances and in certain stages, Utility may be

Desirability and nothing more, yet they have never faced the fact that, ultimately, its coalescence with some kind of Usefulness is certain. No one has, so far as I know, distinguished between Utility and Desirability to the extent of treating them as separate Conditions of Value, so that Value may be deemed to be excited by an Object through (a) its desirability ; (b) its usefulness ; and (c) both.

That might well be the case in a purely objective Theory of Value, but in a Psychological Theory of Value it is impossible. To psychology there is only one real purpose of Value, the completion of a blank in a man's puzzle-picture of contentment or ambition. The external objects are stopgaps sought for subjective purposes. They are not valued for themselves but for their Utility in satisfying, one by one, all the conditions which his most vigorous and earnest self requires for the fulfilment of his better self.

Jevons, who is obsessed with the craving to shape the laws of Economics so as to make them fit the Procrustean bed of mathematics, speaks of the calculus of Utility as aiming at "supplying the ordinary wants of man at the least cost of labour" ; but he is not successful in identifying labour with pain, nor pleasure with utility ; two propositions, each singly and separately untenable.

So, too, in saying that pleasure and pain may be treated "as positive and negative quantities are treated in algebra," he forgets that he has not solved, or established, the difficult question of their necessary opposition. On a physiological basis the existence of pain may be established and, to some extent, graded, but it is not now accepted as the necessary or even the chief opposite of pleasure. While pleasure itself is beyond definition, the opposite to pleasure, in the shape of degrees of discomfort, is even more complicated.

Yet, to prove that the opposite of pleasure is pain, that the two are always distinct, that pain is the only opposite of pleasure, or that the antagonism between them is fundamental, are propositions indispensable to his Theory of Utility, which

are not only philosophically matters of dispute but contrary to our everyday experience.

(2) *SCARCITY* is a peculiar term which is applied to an Object, as if it were a quality, like length or weight. Only absence as a word used in the same way, is, perhaps, less the quality of an object than Scarcity. It is unfortunate that the word has been invented in such a way that it can be employed as a label, as it renders the idea of remoteness from competition more difficult to seize.

As a mental picture is formed by the Agent of his scheme of life, a certain gap, to use the old metaphor, appears more conspicuous because his efforts to fill it with an appropriate object become more and more difficult of accomplishment. Hence it is that the negation of the desired Object ultimately becomes a distress. The relief of the distress is to be welcomed, and Value is attached to the promise of relief through the instrumentality of the Object. The Utility of the Object is not immediately in question except in relation to the distress itself.

There is one usual employment of the term Scarcity in economics, when it is contrasted with Usefulness in the determination of Value, which seems to bring about a topical connection between the two terms. But this is deceptive. In the well-known Paradox of Value, it is often stated that Exchange Value does not depend on the Usefulness of an object but on its Scarcity. Water, for instance, is useful, but not generally valuable. Diamonds are seldom useful, but valuable because they are supposed to be rare.

The opposition between the two terms is not logical, and only appears to be so by the suggestion that Scarcity or Rarity is a quality of an object ; which it is not. The apparent paradox vanishes before the true definition of Value, wherein desire and effort are equally declared to be essential to the determination of Value. Desire for abundant and useful objects may be valid, but there can be no need for extravagant effort to obtain them.

The philosophical nature of Scarcity presents difficulties in its definition only because it is regarded under one aspect. The nature of Scarcity in economics has two or three aspects not always perceived or analysed. The first is as an opposite to abundance, where the question presents no difficulty. Whenever abundance exists, the Value of a class of identical objects is determined by the minimum of exertion or sacrifice necessary to acquire one, or a few, of that kind, as required. Where there is abundance of equally good apples on a tree a man will, first of all, take the nearest few, if it is simply a few apples that he wants and not the excitement of climbing trees. If he needs the whole crop of the tree, it is indifferent whether he begins at the top or at the bottom.

The second or true aspect of Scarcity is more difficult to comprehend because it is psychological, the desire for a particular apple may grow with its difficulty of access. The explanation of this sentiment or feeling, well known in commerce, arises from the fact that, under a given set of circumstances, the object of desire may not be the apple itself, but the satisfaction of an indefinable want, which may settle on the apple. When David was athirst and besieged, his desire was drawn to "the water of the well of Bethlehem, that is at the gate." So, too, our minds turn easily, under stress of emotion, towards objects that are afar or difficult of attainment. Nor is it only emotion or stress which produces effects of extreme desire. General satiety gives weight to obtaining trifles of satisfaction; when the desire is balked it becomes an overmastering impulse.

There is a peculiar increase of this sentiment in the face of a visibly diminishing supply. We all know the poignancy of this feeling, whether it be the end of the holidays or of a prohibition cellar. But in groups and masses of people, the prospect of scarcity and famine is immensely reinforced by conscious and subconscious impulses.

Possibly a third aspect of Scarcity arises from the fact that a very large proportion of material expenditure on consump-

tion rests in the hands of men who have saved money with difficulty. The prevailing idea with most of these people is the desire to keep their purchases still available as Value so that they may get some of it back. Their spending tends in the direction of all kinds of property and commodities of limited supply, where depreciation is less to be feared. This is possibly the chief source of the high Value of diamonds.

This last aspect leads us on to a consideration of immense commercial importance, which is the advertising Value of scarcity or supposed scarcity. The special objects mentioned above share with gold the reputation of a supreme scarcity, which is far from being a fact. Very few people have reflected on the fact that the high Value of these two peculiar articles, and their imperishable nature, ensures their survival in large quantities, which are steadily increasing, while the existing stocks hardly disappear at all except into hoards. Consequently, the special Values of these, and one or two other commodities of the same kind, constitute bubbles, which mankind will some day inevitably prick.

In the case of gold, the advertising power of its supposed scarcity is traditional and literary ; but it is not only traditional, but artificial, because it is in many cases supported by law. In the case of diamonds, it is also traditional, and literary, and artificial, because it is cleverly supported by commercial organisations which never allow the supply of new diamonds to glut the recurrence of the new season's demand. This periodical control of supply governs the policy of many large seasonal trades which maintain a time-scarcity of new crops.

Works of art profit greatly by the advertisement of their supposed or real scarcity, and any event which draws attention to this fact, particularly the death of an artist, tends to have a stimulating effect on prices.

There is one feature about art sales which is unique, as far as I know, in the history of Value, and I have never seen attention called to it before except in the auction room, where it is well known. There may be too few of any particular article

on offer at a sale to attract a sufficient number of buyers to secure competition. I have myself bought a rare enamel for thirty guineas at a big sale which would elsewhere, according to expert advice tendered to me, have brought in a hundred. This phenomenon establishes a link between publicity and Scarcity which is of considerable importance in economic theory and, in my opinion, it is worthy to be called the Sub-Paradox of Value. There may be too few of a certain class of objects of Value to give full play to their attractiveness through Scarcity.

The Sub-Paradox of Value undoubtedly works on a small scale in many mysterious ways. A link here attaches Scarcity to Utility. The Utility of an intellectual, or artistic feat may be of too high an order to be appreciated except by a small number of people ; there may be little or no competition for its acquisition or purchase ; those who are willing to make an effort to purchase will almost certainly lack means to pay any high price.

Value has been familiarly defined as the result of Demand and Scarcity. Much is thus left to the imagination. Demand being itself a group of Values, and Scarcity the partial absence of certain articles, which are known to be required, the definition closely resembles an Irishman's description of a net.

The term "Scarcity" is a makeshift device, implying nothing more than an undefined quantity of negation under circumstances which are themselves undefined. Scarcity is not having enough of what is wanted.

Some new facts may be predicated of it. It is not a quality, and has little meaning except as the negative of abundance, which is itself a relative term. Its economic importance is not absolute, but dependent on due publicity being accorded to that kind of fact, of which it is a negative. At the beginning of the nineteenth century there was a complete absence of wireless communication, of operations for appendicitis, of tanks, and radium, and insulin. Yet no one missed them. At the present moment it is possible that there is an inadequate

amount of knowledge on many subjects, but there is no general Scarcity, because no one is aware of its absence. It thus becomes evident that Scarcity is, after all, at least a secondary, if not even a more remote factor in Value, dependent on desire which, in many cases, is dependent on knowledge. More complete knowledge would create new scarcities in some directions but it would certainly destroy some in others ; as, *e.g.*, a scientific discovery of extracting gold from sea water with small sacrifice.

So far as Scarcity can be projected as an identity on the imagination, it is interesting economically at two stages of transition. The first was the cause of great pre-occupation to Proudhon, who attributed it to the malefactions of traders. It is called by Wieser, the passage of free goods into economic goods. Land and water rights in a new country are conspicuous examples. The consequent rise of prices is an economic warning note that the public must no longer recklessly waste commodities and materials which are needed by a growing population.

The other stage is an accentuated phase of essentially the same process ; the sharp rise of prices which heralds the oncoming of a famine. In days when all means of publicity were inefficient, forestallers and regraters of food were performing a public service. If a few of them did it from motives not sufficiently humanitarian, poetic justice was satisfied by hanging a few innocent bakers.

It is very unlikely that the word "Scarcity" itself will ever drop out of economic use. Psychologically, the explanation of the phenomenon is simple enough when expressed from the point of view of the valuer. Primarily, it is a gap or blank in the scheme of a man's life, with the consequent necessity of effort for filling that blank. Secondly, it is the selection of a particular commodity to fill the blank, and the necessity of increased effort for filling the blank because there is no abundance of the object selected. Where the life in which the longing is vaguely felt is one of ease the process is reversed because

no object will fill the blank in the pampered life in which some considerable sacrifice, or apparent sacrifice, is not required. We can easily come to a pitch of luxury where nothing can please that is not expensive.

(3) *SANCTION FOR CONTRACTS*.—In one form or another, and there are many forms and many degrees of protection afforded by law, Value, in its more complicated developments, needs enforcement to secure validity. In modern life there are few or no direct exchanges. We do not hand over a yard of flannel for a bottle of beer, and if we did we should have to take some risks, if we were not experts in both. As it is, most of us are not experts in money, so that in these days of universal inflation, neither in buying nor selling are we carrying out the exact contracts which we suppose. All our exchanges and all our valuations are thus subject to innumerable conditions, fixed for us beforehand by custom and legislation in some compulsory form, or by convention and the obligations of good manners in ways that are hardly less binding.

So universally prevalent is this system of complicated obligation in ordinary times, that it is taken for granted as a condition of Value, whereas in any state of war or anarchy Values are rapidly modified and many kinds of Values immediately cease to exist. In a legal state of war the changes are made by law or administrative power, such as a suspension or postponement of payments, or the prohibition of dealing in futures, or purchases and sales of stocks for fortnightly settlement. Values are subtly modified by alterations in legal tender, or limited by fixing maximum prices, or confiscated by requisitions and inflations. Under these circumstances we begin to notice the nature of the third condition of Value.

As a fact, however, even in peace many modern States have long withheld the enforcement of certain contracts, and in other cases have treated them as crimes. Slavery, the White Slave traffic, and the sale of liquor in prohibition districts, are suppressed by ordinances more or less direct in their action. Gambling contracts are not enforced. Usury contracts, under

certain circumstances, are ameliorated or cancelled. Regulations guiding the entrustment of money for minors, etc., are very strict, and so are those which govern the privilege of limited liability for corporate trading. Licenses and virtual licenses for liquor trading, as for transport facilities, are hedged round with safeguards. Finally, life, personal safety, and female honour are protected by liability for civil damages as well as by legal penalties.

All these limitations of freedom affecting contracts and Values have only to be mentioned to secure recognition. Less noticeable, however, are the limitations on Values imposed by public opinion. A gentleman may not sell his services for saving life nor accept rewards for certain kinds of goodwill. Yet, on a small scale, civility is extensively marketed for tips because democracy does not acknowledge good manners to be an obligation. A man cannot for long openly accept maintenance from his friends, although a woman can do so without loss of status or self-respect. This point has some importance in relation to the relative standards of comfort for the two sexes.

The position of doctors is peculiar. To the poor it is a matter of custom that they render service for small fees or gratis. Their tariff is only partially commercial; their refusal of services in cases of actual distress would not be tolerated; their attempt to combine in their own interests is limited by the understanding that they will not endanger safety or inconvenience the public. This condition is not applicable to others who serve the public, such as transport workers, policemen, or engineers in light and power services.

Without the enforcement of contracts or their maintenance by public opinion, goodwill, and personal honour, it is evident that large classes of Value would disappear owing to want of confidence. There is, one might say, almost perfect warranty for most commodities under a good Government in a civilised community. For the same reason the differences between present and future Values are fined down almost to mere time-

values of money, owing to the diminution of risks to the goods from want of good faith, or from violence, or from mere neglect.

It has often been remarked that, in progressive countries of our time, an over-reliance on law does not always bring the security that is expected. In our complicated social system good faith still happily plays a great part in commercial relations, and law and good faith require to be mixed with brains in order to obtain a smooth consistency. It is abundantly clear that, in good times and under sound government, good faith has still its part to play. Good faith ever breeds good faith. Value tends to receive what it expects and has a right to expect.

It is evident that in all three Conditions of Value the subjective influence of the valuer's state of mind plays a large part, although it cannot be said to be the sole creative agency in the same sense as in the Elements of Value. There is some justification, therefore, for the very natural contrasting of the two classes as internal and external factors of Value.

CHAPTER XII

GENERAL VALUES

There is no alleviation to the sufferings of mankind except veracity of thought and of action, and the resolute facing of the world as it is when the garment of make-believe with which pious hands have hidden its uglier features has been stripped off.—HUXLEY.

WITH these words of one of the most eloquent of the late Victorians, Mr. Harold Wright closes his study of the population question as it presents itself to this country after the Great War. It is a subject which has much exercised economists like Mr. J. M. Keynes, journalists like Mr. Harold Cox, philosophers like Dean Inge, and scientific men like Professor J. Arthur Thomson. "By them," as Mr. Wright says, "we are brought face to face with the most fundamental of all economic problems; the relation of the number of human beings to the supply of the necessities of life."

How does this problem become a problem of General Values? In two ways. The first is more concerned with the future, the creation of new Values, and is therefore peculiarly the province of sociologists and economists. The second relates to the fundamental attitude of the existing population to the whole stock of material wealth, and our various systems of civil organisation. It is certainly a political problem, but one which is more essentially economic.

It is evident that the first is pre-eminently a world problem, substantially the same for all nations at all times, yet presenting itself for solution to each nation and group of nations in various stages of difficulty.

I propose to deal with it in detail, as far as the great Western nations are concerned, in the next chapter, under the heading of Standards of Value, where I hope it will become apparent

that the economic solution, *i.e.*, the solution automatically being carried out by experienced economic behaviour, is both theoretically and practically that kind of efficient remedy which is very seldom, if ever, imposed on any nation by the unaided intelligence of its rulers.

This world problem has generally been presented as a struggle for survival and subsistence. The more peaceable folk in all ages have attempted quietly to subsist under conditions as stable as their neighbours would allow. The more warlike, combining themselves in tribal and national units, have turned the problem of subsistence into one of survival.

Adam Smith has an eloquent passage describing the terrors of a pastoral and nomad invasion, where large hordes, bringing with them the temporary means of subsistence, have overwhelmed, not mere nations, but civilisations. The repeated inroads of Nordic barbarians, which have been so fruitful for civilisation, have combined the problems of survival and subsistence by establishing themselves in successive spasms on subject Southern peoples, creating permanent aristocracies reinforced by fresh conquests. The only successful historical experiment in making a system of mere subsistence stable and permanent has been the Chinese-Tartar combination, which has often been quoted, not altogether unjustly, as a type of somnolent survival by leave of more progressive nations. They are, perhaps, the only large unit of population which at present remains stationary, but their polity is inert and still helpless, although they invented gunpowder and printing many thousand years ago.

Survival by war was not a moral problem to the ancient world. Only Christianity has made it complicated. The biological analogies which are thrust upon us are not very illuminating, even from recent writers and speakers. According to Professor East (*Scientific Monthly*, June, 1920), the white races are increasing much more rapidly than the yellow or black, but according to Professor Thomson ("The Control of Life"), for this difference there is no physiological reason.

Professor Keeble (1920) and Dr. Cornish (1923) both reassured the British Association that the possibilities of food supply exceed any immediate demand that is likely to be made by the present admitted rates of increase.

On the general question as to the proportionate increase of population in Europe, and especially in this country, to the available supply of stable food, there was a notable controversy in the Autumn of 1923. Sir William Beveridge, criticising Mr. Keynes, not so much for his exact statements in his brilliant book on the "Economic Consequences of the Peace" as for the general tendency of his doctrine and the stir it aroused among public writers, took issue with him on the question whether the year 1900 was a critical turning point in European civilisation. Sir William's paper, read before the British Association, was published in the *Economic Journal* (December, 1923) with Mr. Keynes's rejoinder. The rejoinder certainly established the narrower contention of the latter, "that we are asking too much for our exports and will have to ask less if we are to sell enough to pay for our necessary imports," but he did not altogether cover the broader issue.

I think Sir William Beveridge is right, that there was no indication before the war that Europe was in danger of not being able to produce enough, or buy enough, food to support her growing population so long as that population chose to exert itself sufficiently. It is the lack of working inclination, rather than lack of working power, that seems to me to be the growing danger to our European civilisation, a condition which has become more painfully apparent as the result of the war, although the seeds of it were visible earlier.

In the present doubtful balance of international relations, it is not so much Standards of Subsistence as Standards of Comfort that are threatened by surging populations. Nations like Germany before the war, which intensify their efficiency under the constriction of internal pressure, are more to be dreaded by their neighbours than those with merely over-

flowing numbers. In fact, the problem is sociological and economic rather than biological.

Professor Simon Patten, to whose illuminating book on the "Development of English Thought" I wish here to pay a hearty tribute, is, I think, quite right in emphasising the fact that Charles Darwin, the great establisher of the biological hypothesis of survival by struggle, was himself inspired to investigate the relations between the survival of life and the supply of food by the prevalent atmosphere of controversy created in his youth over the hypothesis of Malthus.

Even before Malthus's time Richard Cantillon, in 1755, as Jevons revealed in his brilliant essay, had shown a similar comprehension of biological parallelism between men and animals in this respect. "Men multiply like mice in a barn, if they have the means of subsistence, without limitation." But neither he nor Malthus understood that, with human beings, the subsistence motive has its limits, and that the standards of struggle based upon these limits are soon found to be very low ones.

History points out that men will undergo only a moderate degree of hardship for the mere preservation of life, and that, organically speaking, the sum of all the hardship endured for the sake of mere subsistence by large numbers will not outlast, nor outwill, the more intelligent bearing of sacrifice by considerably smaller aggregates of men who have attained to a high standard of comfort and struggle.

The study of the French Revolution induces me to have no hesitation in confirming Professor Patten's view, that it was not simple want but the lowering of the standard food of the Paris population from wheat to cheaper grain, threatened by incompetent finance under the last two Louis, which prepared the fuel for that bonfire, to which the course of political events put a match. In fighting, the Standard of Comfort has always beaten the Standard of Subsistence out of the field.

It does not follow that the higher Standard of Comfort will also, always and everywhere, beat the lower. We have not

sufficient materials yet to guide us as to the issue of that division of interests ; but I have little doubt that some day it will be tried out. Our posterity may see a smaller aggregate of men, matured on some elaborate Standard of Struggle involving high training and strong self-control, throwing down a challenge for power to the larger aggregate of men steeped and stupid in material comfort and over-confident in their power of self-will. The contest will most probably concern some conception of justice and, undeniably, economic justice.

The second problem of General Values, which has been brought to the front in Great Britain by the question of over-population and consequent unemployment, is the attitude which the large body of the people are taking, and will take, towards the bulk of existing Wealth, and especially towards the aggregate means of production. In the latter may be also included the capital required, not a very large amount, for the maintenance, at an agreed high standard of comfort, of two very different classes of economic workers who occupy intermediate positions between the small number of people who control the disposition of the great streams of capital and the large masses of men and women who earn wages.

The intermediate classes are of very diverse character ; one portion being engaged in exchanging wealth and the other being specially skilled in technical methods of production.

The two must be socially classed together as they have the same standards of expenditure ; they intermarry, and in each case their numbers can only be renewed by an expensive education. The professions represent the *élite* of the two intermediate classes combined, as they are chiefly recruited from those who can afford a highly expensive training and often possess some small capital.

No one will suppose that in our complicated civilisation any of these bodies, or groups, are sharply defined from one another ; they are differentiated by function, as individuals ; as families, they are intermingled. A cotton mill magnate will

have sons in the Army, or at the Bar, or working as trained engineers. He will own shares in concerns whose business is largely mercantile. His daughters may be married to artists or clergymen. None are likely to be wage-workmen. No other line will be so sharply drawn as that.

That unfortunate social line has much to answer for. It is the line of the Standard of Elegance, and has every social, but no real, industrial importance. Those below it are in many respects better off than some of those above it; but they do not think so. They attribute to the higher social ranks an impalpable and factitious superiority, and do so more forcibly because that superiority is grudgingly resented. Without acknowledging it, they would sacrifice much to be among them.

It is with the upper, and so-called comfortable, classes that I am for the moment concerned. They are included by custom and general opinion in the capitalist class; they do not always possess that status, and it is frequent to find them denying it. Let us attempt the task of finding some possible criterion to break up this amorphous group. It is exceedingly difficult, because the same family or group, and even the single individual, will be exercising economic functions in more ways than one. A wealthy manufacturer will sometimes have capital in other kinds of business than his own, and his invested funds will, in many cases, support banks, insurance companies, traders, as well as individuals of the professional class. On the other hand, at least half the lower middle class and many workmen, by their saving and through their insurance and other funds, will be acting to some small extent as capitalists.

The comfortable sections of society perform three functions. They largely supply, and own, (a) the capital used in production, (b) the capital used in exchange, and (c) the capital used in educating, training and financing the professions and highly salaried organisers of industry. The latter class are often called by the unmanageable word "Technique."

So much do the working masses exceed in number the comfortable classes, that their collective opinion in any revolu-

tionary conflict overwhelms any opposition from the latter. What may be called instructed opinion is hardly that of the privileged classes alone, but depends on the traditional and moral influence which the latter still partially maintain in progressive countries to some extent over the minds of a wage-earning majority, whose industrial members have for some time been tending to social and economic views of an opposite order. On this body of fluctuating and by no means rigidly held social and political views depend what I have a right to call General Values.

This body of views, representing General Values, is certainly nearer to agreeing with Communist ideals now than it was forty years ago. It is not altogether economic convictions that hold our modern democracies back from subversive experiments in property ownership, but the natural, and perhaps generous, ideas of elementary justice. On the other hand, their attachment to old-fashioned ideas of justice is not so strong that they would continue to bury, or postpone, for ever their conviction that the system of social order would be the better for a radical revision and reconstruction.

What are the prevailing ideas in Great Britain on the expropriation of the supposed, or alleged, expropriators in these difficult years after the Great War? What are now our General Values? I will venture to give the results of my observation for what they are worth.

As to the Social usefulness of the three classes of Capital enumerated above the workers have very different opinions.

(a) They do not, on the whole, undervalue the great bulk of wealth engaged in actual production, but they are very critical as to the justice of the title to its ownership by some individual employers. They would willingly see all inefficient plant put out of use without troubling too exactly how to compensate its proprietors. They have been taught that its original construction, as for instance in railways, involved immense waste, for which "watered" capital still draws an undeserved reward. They are inclined to suspect that, in one way or

another, real profits on industrial capital are swelled by trickery and manipulation of reserves, much of which still goes on. There are leaders among them who would persuade them to believe that participation by the workers in management would diminish incompetence, show up wasteful methods, and leave a very large margin of extra profit, in some of which the workers themselves would share.

But, while many of them are anxious to share in the control of industry, or interfere, if you like to call it so, in the management, they are not prepared to take a risk in any shape or form other than that of unemployment. This final risk is one to which the older men are accustomed, and the extent of its burden has been materially modified by national insurance. If it were not for this last doom-fraught contingency, which is the one they chiefly understand, there is hardly any limit which the more daring among them would, in practice, impose on their aspirations.

(b) As to capital used in exchange, which is, in practice, very difficult of disentanglement from capital used in production, a very much more difficult question is hereby opened for discussion. The workers, including in this connection also the higher class of workers, such as the scientific experts, the professions, the artists and literary men, an extremely important body, have no appreciation, and a very inadequate conception, of the nature or amount of the difficulties overcome by capital in marketing the results of production. To say that they undervalue its share would be a misstatement, because they do not value it at all.

Here, in this corner of civilisation, lies the great danger to our modern commercial organisations, in the common blindness to the real Value of our most expensive and most highly developed system of exchange.

On this point I have dwelt before, and will dwell again at some length, but, before leaving it for the moment in its present connection, I cannot refrain from referring to some of the conclusions drawn in the interim report, issued in October,

1923, of the Departmental Committee on the Distribution and Prices of Agricultural Products. It is true that their conclusions are not illuminating, but they avoid the gross errors which appeared in the diagram of the distribution of meat, to which I have already alluded.

In their summary the usual platitude recurs, that it is in the direction of reducing distribution charges that the greatest opportunity for reduction in costs appears to lie. Just as it was stated before in the earlier report, that "meat traders, as a class, appear to have definitely improved their relative position in the community," so, too, in the present case, the high profits of flour traders and retail bakers come in for the same condemnation, together with the inevitable railway rates. In the cereal report there is more evidence of the cause of these high distributing costs than in the former case, but no felicity in drawing an intelligent conclusion.

The high cost of selling in the food trades, as in every trade during the present times of stringency, is due to the shortage of capital now employed in the distributing business.

The popular remedy for the evident costliness of the existing selling machinery is to cut out some of the existing links, to drive some of the existing capital out of this branch of our commercial system with results which will have the opposite effects to those desired.

(c) Democracy in general, and educated industrial democracy in particular, has a very high respect for the commercial value of expert technical management. In fact, they attribute much of the undeniable industrial utility of the accountants, architects, bankers, chemists, engineers, physicists, and so on, to a superior system of education, such as the State can be expected to supply, at low cost or largely free, through secondary schools and universities.

The difficult problem of selecting right men for this costly training is universally left out of account, and so is any provision for the vast wastage of special talent whenever unemployment begins. One crucial point is popularly overlooked and,

of course, it is the selling point. As industry is now organised, no one can succeed in these commercial, or, indeed, any other, profession, unless he can "sell" himself or pay highly to have his services sold for him. For both these processes he wants a supply of personal capital, for which there is no known substitute except desperate energy and endurance, or the attainment of one or two conspicuous professional prizes, such as will set a man on an exceptional pinnacle.

When we take these three uses of Capital together, it is difficult to avoid the conclusion that Democracy, in a hurry, is unlikely to encourage any but the first and third, and may even largely destroy what remains of the second after the immense strains put upon our industrial system by the demands of war. Nevertheless, it is the second use of Capital, and the preservation and improvement of the delicate marketing machinery, inherited from a more prosperous age, which most need careful supervision in these times. Here lies the point where a strangle-hold may be laid, by rough and ill-advised handling, on the production of the future. Any carelessness in allowing a cog to slip here in the economic fly-wheel will receive a penalty five-fold greater than any mistake made elsewhere.

If I had time to expose the cause of the present distresses in Great Britain, exemplified chiefly in unemployment, it is here that I would make a research for proofs of my statement ; for damage of this kind, I am sure, we have suffered ; but I trust that the tendency has been slowing down or stopped.

Concerning this wide aspect of General Values, which relates to the attitude of large democratic majorities towards the bulk of realised wealth, and the developed machinery of industry and commerce, it appears that some considerable loss has lately occurred.

There is another aspect of General Values, already referred to, in the attitude taken by workers in general, male and female, to their duties in the future towards their country and, inevitably by consequence, to one another. A general

slackening of effort will alter General Values. This also has occurred.

It is not so much a general tendency to idleness that I would charge against democracy ; the men are active enough ; as a universal overvaluing, both of their work and of their leisure. In the case of the latter respect, hours have been universally shortened, and all kinds of waiting have been abolished, largely from the impression that all waiting is waste, which it is not.

The overvaluing of work has occurred in two ways, the most obvious was a general demand and skilful combination to obtain higher wages, before the prosperity had returned which was to pay for them. The result of a general increase in cost has been the chief cause of unemployment. The less obvious method was insistence on less work, less efficiency, or shorter hours, whenever no considerable increase of wages was obtained.

In the case of domestic service a general collapse of efficiency was automatically put in force everywhere, owing to the conviction, on the part of servants, that far too much work and trouble had been given in the past for too little reward. I hardly suppose that in the world's history any successful bargain had ever before been so neatly and generally carried out by so large a number of people. The domestic employer was in a weak position, where he had to pay the price at once in wages and discomfort, and he will probably continue to do so with some not very vital loss of efficiency.

A rise or fall in General Values summarises the efficiency and capacity of a nation, and duly metes out the rewards and punishments attendant on right and foolish courses of action. I am no great believer in the inevitability of economic laws—for want of faith in the laws themselves—but natural laws have a firmer sanction. As natural laws are working all the time in the economic sphere their results are inescapable.

The leaders of an industrial democracy, which acts solely in its own interest, will discover that the middle-class buffer,

which they hope to interpose between the acquisition of their private advantages and the ultimate results of their own policy, will, indeed, provide a cushion, but a thin one.

The total mass of realised wealth in the world makes a brilliant, but deceptive, show. So far as it consists of glittering external features, a short night of anarchy will unburnish their gilding and shatter their fabric ; so far as it consists of consumable stores, an outside estimate of two and a half to three years of production will more than replace them, and less would be necessary to consume them altogether ; so far as it consists of mechanical contrivances their utility, when deprived of skilled care, has a life only of months ; so far as it consists of organised and experienced talent, the system, if starved or slowly destroyed, will last no longer than the bodies themselves and the brains will endure, perhaps half the space of a short life, and will be replaced only at very great cost.

CHAPTER XIII

STANDARD VALUES

Unbreachable the fort of the long battered world uplifts its wall.
MATTHEW ARNOLD,

Section 1.—INTRODUCTION

MALTHUS, of Haileybury, was a great man. Just as Hobbes and Rousseau began to unite philosophical speculation on supposed natural conditions with doctrines of Political Science, so Malthus was the first effectively to present the spectre of the biological parallelism between man and animals face to face with the crude humanitarian optimism of Godwin and others. No one supposes now that he was the first to observe the phenomena of population, but, what was more important, he was the first to determine its philosophical significance, and, a service of less value but one more discussed at the time, he was the first to make it a burning economic and political question.

His speculative treatment of a subject bristling with controversial points was admirable, much better than is supposed by many who still show themselves his opponents. He was, however, precluded from studying his own problem under its most valid aspect from want of the practical conditions necessary for seeing its actual solution in the economic behaviour of his own day.

The England and Wales of Malthus were getting rich at a vast rate, and even faster than was required for an increase of population from nearly nine millions, when his book was published in 1798, to over fourteen millions when he died. Their peoples were able to purchase, without difficulty, their food and many luxuries abroad. Nor had the great period of

Irish depopulation begun to illustrate one lesson, nor had the growth of Scotch population advanced far enough to offer a pronounced contrast in another.

No one has yet laid sufficient stress on the fact that, apart from the history of their home territorial populations, both nations have enormously increased in numbers and general influence; the first acquiring an outlet and a great political power in the United States of America, and the latter carrying out a successful Nordic invasion of the regulation pattern, among other places, in England, Canada and New Zealand.

The case of the home population of England has, in spite of considerable emigration, shown a sufficient congestion under modern conditions to illustrate in what way economic behaviour meets and overcomes the difficulties presented by a diminution of food and luxuries grown at home, a diminution of resources requisite to purchase them abroad on the terms of accustomed welfare, and a diminution of employment at rates sufficient to maintain the acquired Standard of Comfort. These are the three buffers which economic habits, and the political wisdom of the democracy, have interposed between a growing population and the loss of its beloved luxuries.

The question of food has never arisen, nor has the necessity appeared of limiting the number of children in the great majority of families. We are now only approaching the fringes of the second problem by way of guarding our cherished pleasures rather than from want of food.

Parenthetically, I may say that the economic condition of Germany, a most interesting one before the war, need not be placed side by side with that of England, because of the arbitrary intervention of military power which prevented a simple economic solution of the pressure of population. The Russian case is not parallel, and has no lessons for us which have not appeared before in history.

It may have been remarked that in the last chapter, in a brief sketch of the outlines of the previous speculations on population, I avoided using a convenient phrase: "Standards

of Living." My precise justification is that this very useful term has been made to do too much work. It covers ideas of restraint, which differ very greatly under various circumstances. At least four Standards of Living have prevailed, whose effect on economic behaviour has been far-reaching in directions that are wide apart. They must be elaborately differentiated before the parent term can have any scientific usefulness.

Section 2.—STANDARDS OF LIVING

A Standard of Living, in general, may be deemed to be a half-acknowledged, half-unconscious, psychological agreement among large, perhaps national, groups of people to observe a rate of consumption and expenditure which will not exhaust, within a given period, the visible supply of necessary wealth during the same period. The maintenance of these standards is effected by written and unwritten rules, which imply, ultimately, Standard Values of all articles likely to be exhausted before the supply can be renewed, below which they are not likely to fall, although prices may rise above them. Of these Standards of Living, I am aware of at least four kinds, not altogether distinct in spirit from one another, as we shall see, but taking very diverse shapes as to the systems of habits, by which they are made good and in which their continuity is preserved.

First of all there is the Standard of Survival (*a*), which, curiously enough, may be placed lower in the scale of indigence than one of subsistence.

Such a term appears, *ex hypothesi*, impossible from the definition of subsistence commonly accepted. But, on reflection, it will be seen that some Standards of Living have been fixed and acted upon which did not admit of the subsistence of all the population in health and vigour. A Standard of Survival was a method of selection of some individuals to live in full vigour at the cost of the lives or the good health of others.

It was the Spartan Standard, or worse ; where the nation, as a whole, had not the means of subsistence ; where many females were eliminated ; where only the males of military vigour were kept alive on terms which were above the point of privation.

The Standard of Survival was itself, probably, a remedy for an earlier, more deplorable, state of extreme indigence ; where methods of struggle were so vile, that degrading qualities had obtained a temporary mastery ; where starvation was the fate which fell to full-blooded and full-bodied men ; where the survivors tended to be active, wiry, small and cunning. Neither a big body nor a big brain were survival points, which may account for the disappearance of the Cro-Magnards. Their immediate successors and conquerors, however, now only occupy corners of Europe.

Now the Survival Standard cannot be considered by any means pre-historic so long as we can see traces of how nations and aristocracies, for political and economic reasons, have reverted to it after defeat by hated enemies. Subsistence was not in question, because subsistence was denied to the weaker members. Intellectual eminence was not appreciated by these natural aristocrats, but tenacity of purpose, stubborn endurance, loyalty of leader to follower, and the converse took its place, as we can see in their descendants.

Neither can it be said that its spirit is even now altogether dead, while we can respond so easily to the call of romance, the appeal of loyalty, the instinct of accomplishment ; its great enemy is the growing feminine influence, which tends to capture more and more of our economic life, and is stretching out its monopolising grasp to the prerogatives of Government. It is, however, always coming again to the front in new forms, as we shall see later on.

The second is the Standard of Subsistence (*b*), which, in spite of the large part it plays in economic controversy, is the least important of all. It is hard to name even an uncivilised race or tribe, where it can be said now to exercise an important

influence in determining the numbers of population. It seemed to prevail for a short period in our country "within those dark Satanic mills"; due to rapid expansion of population and industry; to the transfer of traditions from the country, where child-labour was healthy, to the town, where it was not. Disraeli, equally prejudiced in the aristocratic direction, but more observant and better informed than the poet, faithfully depicts in "Sybil" the distresses of the country tenants of the Duke of Marney at least fifty years later than the time Blake's lines were written on the miseries attending the growing industrial development of his country.

The only Standard of bare Subsistence without some atom of comfort that I have heard of is clay-eating, and even that has been known to become a vice, which some people will not give up for better food. The Irish labourer who used to live on potatoes, and the Chinese coolie on rice, have generally been accepted as having the lowest Standards of Living which were at all widespread. Neither of them brought the population to a standstill for mere food alone. In the former case emigration took off a large surplus population to America. In China, a great expansion of trade over Malaysia and Polynesia has combined with civil war at home to complicate the question. In India, where the population tended to become stationary at a certain level, Western science has ameliorated life conditions and checked famine and epidemics, as one branch of its work, and, as another, begun to indoctrinate the country with Christian Standards of Comfort.

The term "Standards of Comfort" (c) serves better than any other to express the determination of large classes of all civilised populations not to permit their average habits of family life, including a growing margin of pleasures different in every country, to be interfered with by too much competition within their own class for the average supply of these amenities at approximately stable real prices. Under monarchies and aristocracies of all kinds there have never been wanting the equivalent demands for *panem et circenses*.

Democracy has elaborated these standard necessities and pleasures, and marshalled them in an increasing number of grades, to an extent which has left the complications of the caste systems of Oriental countries far behind in ingenuity.

The boot, the bonnet, the dress suit, are each types of comfort on certain ledges above the bottom precipice of bare heads, bare backs, and bare feet. The bicycle, the motor-cycle, and the motor-car show similar gradations. Let these instances lead up to the infinite degrees of luxury, refinement, punctiliousness and etiquette, which hardly need detailed enumeration.

The philosophical and psychological significance of these complicated guards of civilisation is that every one of them denotes not only Standards of Comfort but Standards of Struggle (*d*). They each indicate to the classes, who are above and below them, the delicate dividing lines which do not always run parallel to one another, representing a social victory to be won, or, at least, a trench taken in the night, a fresh point at which to-morrow's struggle may begin from an advanced start. On these dividing lines the Standard Values of promiscuous commodities are fixed, which may have some reference to their intrinsic usefulness or they may not. Let any one reflect, for instance, on how many pianos are really played on and how many are kept in tune; how many Bibles and Prayer Books are opened; how much silver-plate is taken out of the bank.

The meaning of the Standards of Struggle is, of course, an evolutionary one. They are, in effect, so many serried barriers against the overflow of population within that class and sub-class. A man who cannot maintain himself, his wife and family, on the expected level, must seek with shame to take a lower room. As they are not permitted to lead to infanticide these jealously-guarded social lines act as a deterrent against early marriage in the comfortable classes, and there are now few classes which do not have their standards of comfort and struggle.

There are two interesting points to notice about this fourth

class of Standard of Living. What I have called class (*d*) is almost a full turn of the wheel in reversion to class (*a*), the Standard of Survival, which is aristocratic in nature. The penalties which some people, especially women, impose on themselves for having slipped a link in the chain of progress or in order to hold on to a niche in the cliff of respectability with hands that are literally numbed and bleeding with work are quite amazing. All the romantic and chivalrous instincts, inherited from warring ancestors, are brought to bear in the fight of the sinking poor for the preservation of a forlorn fragment of decayed conventional splendour or an echo of former estate of gentility. Yet, though there may be pity for their condition in the social code, there is no help in their trouble. They cannot take it. Substitute the class for the tribe, and the Standard of Struggle is the same as the Standard of Survival.

The other point of vast economic importance in Value is almost ludicrous in contrast. Why do we buy so many things we do not want? so many things we dislike and, perhaps, despise? Because they have acquired a Standard Value. Some vulgar person has led the way; even royalty must follow suit.

Section 3.—SEX AND FAMILY STANDARDS

We come now to the vexed question of the cause of the strength of these Standard Values. Their final cause is admittedly evolutionary. What is the origin of their strength? As we might expect, it is due to the pressure in them of the Moral Element in Value. They nearly all centre round the family life; the family life in being or the family life to come.

At the same time it must not be thought that the family life has everything its own way. It is subject to very severe competition. It is in competition chiefly with the high standard of comfort enjoyed by unmarried bachelor and lady friends, but more severely still with the brave front kept up by the establishments of childless marriages.

The latter competition is the harder to meet as there is a hearty, but hollow, show of equality of conditions kept up between households of exactly the same social position and nominal means, where, however, the enforced outgoings with the one case may be double those of the other. The real strain engendered by a false equality of this kind is responsible chiefly for much of the absurd convention observable in well-to-do middle class households. The small higher class does not so much suffer in this way, for its members often have the courage of a liberating frankness, and they are also no little aided in this respect by the almost complete knowledge of their actual economic resources possessed by the circles in which they move.

The competition in comfort from bachelor friends of both sexes is largely nullified by the speedy cutting adrift of every large family household from its bachelor freedoms, and by the express acknowledgment on both sides, that absolute equality in expenditure is not consistent with friendship. Much of male bachelor superiority in wealth is hidden in clubs, or expended on travel, or solitary and distant luxuries. Bachelor women have, as a rule, less wealth to spare and fewer ways of spending it. They never drift far from the households of their married friends, and the luxuries they indulge in can be easily shared with children.

The real competition of the standards of married and family life with standards of bachelor luxury lies in the breasts of individuals themselves, and consists in a comparison of married indigence with the ample scale of enjoyment in travel, shooting, fishing, climbing, on the part of the male, and, on the part of the female, coming from well-to-do surroundings, in an indulgence in clothes, theatres, and balls on a scale often impossible for her in the married quarters. The difficulty in giving up all these pleasures, and, perhaps even more so, the company of those who enjoy them, is not so great as it appears, but it is quite enough to deter an appreciable number of the comfortable, and, unfortunately, intellectual, classes from resigning

them at all or only after a long delay. Many a girl who wishes rather innocently to have her full fling before marriage is sacrificing, without knowing it, to immediate pleasure the prospect of parenthood, either by missing marriage altogether or postponing it into the age of the bonds of accustomed comfort. It is thus that population is kept down amongst classes where, presumably, the best of the race expects to be continued.

Above, and beyond, the obvious resignation of pleasant standards of comfort required from both parties in most marriages, there is a more subtle, and probably more dangerous, competition between the rival bachelor standard Values of both sexes. This is comparatively a new evil, if it be so considered, and one which will grow as time goes on. It is prevalent now only in the progressive countries of Western civilisation, but it will come to affect all Teutonic peoples, and, ultimately, the Latin peoples. It will, no doubt, in time lay an axe at the root of family life in all classes below a certain level of character and above a certain level of prosperity.

In early married life under the happiest circumstances it is pleasant to suppose that there is an eager competition on both sides to surrender every pleasure which does not contribute to the common good. It needs a robust optimism to believe that such a noble rivalry is universal, and, when it is not there, mutual sacrifices have to be taken in order.

Among the three forms of competition which Standards of Family Values have to sustain, those with the Values of childless households, those with bachelor Values, and those arising from the internal rivalry of Sex Standards, very different results follow in respect of the marrying age, or of the numbers of each family ; in other words, of population.

The first two do not directly affect more than the considerable number of middle-class families, whose influence in this respect, on the habits of large masses of the people, is always effective but has not yet spread far. The third factor, which I consider to be evil, is more widespread. The independence of girls of the lower class has always been more real than in more

comfortable classes, but they have not hitherto adopted set Standard Values of bachelor pleasure. Undoubtedly these are growing and their spread will operate to deter marriage or make it unfruitful.

In fact, while I am not prepared to deny that there may be a population question in these islands, I do not quite know what form it will take ; whether, that is to say, we are to dread an overflowing population ; or to be anxious that the numbers of our population will not be equal to its world responsibilities ; or to worry about the quality of that portion of the population which our economic behaviour tends to perpetuate.

On the whole, subject to my general belief that the Moral Element in Value will inevitably, in the end, prevail, I believe that our Anglo-Saxon civilisation is now tending of itself towards a better solution than any our lawgivers are likely to help us to carry out. I am inclined to believe that the last problem requires most thought. It requires thought more especially amongst present parents of the population, because it is a question of that kind of education which we do not expect to get from a Government department. We require for our children such an education as will clarify and elevate their secret ambitions, and one which will help to place their Standard Values on a high level and to discourage that opposition between the sexes ; that contest in pleasures, which inevitably comes up some time in married life ; that example to the children, which unwise selection of expenditure will tend to promote.

In looking round carefully for help in this matter it would be a mistake to look too far afield. We must not follow the example of a noble lord who contended with the trustees of his children's property that a grouse-moor was a necessary part of their education. It is not the instruments of education which are now wanting, it seems to me, but the spirit that is at fault.

The fault shows itself in two ways.

The less serious fault is one that should speedily be corrected in the type of education which women have sought out for themselves. Their present system too much resembles that of men. It gives rise to the suspicion that women are not so much seeking education for itself as an education which will enable them to understand men and, by understanding them, to dominate them. In this fashion they are not training themselves in the best way to make their own contribution as valid as possible to the needs of society. Since the university training of men takes many masculine things for granted, the same opportunities, when tendered to women as a complete system of learning, leave many gaps which are never filled up.

Allied with this is the thorny question of the relative dominance of character in the two sexes, which is so vitally important a feature of the Subconscious Element of Value. The female is not the dominant sex, but the individuals carry within them that dominant tendency which later must flower forth in their male offspring. It is impossible, therefore, for well-instructed insight to withhold sympathy from dominant members of the naturally submissive sex, even when it is impossible to admit that their present influence over their own sex is fortunate, in so far as it encourages rivalry with the other sex on false issues and exaggerates an antagonism, for which there is always too much material in married life.

The more serious fault in Anglo-Saxon countries is the steady depreciation of the objects of interest to the mind. I do not wish it to be inferred that we have at all overwrought ourselves in pursuing the supremacy of the Moral Element of Value, but, seriously, we have much to learn in veneration, and even respect, for the Mental Element in Value. It may be the result of a prevalent classical education, where intellectual qualities have been presented too often as necessarily opposed to more solid or more chivalrous ones.

We have tended to admire too much Agis and Cleomenes, and to think that Aratus ought to have had his educational career cut short at an early stage. In our public schools, while

the course of arrogant and cynical wickedness is made strictly impossible, the career of incompetent idleness of a picturesque and manly kind has its bayleaves in profusion, which are valued in a ripe old age, about the same time as the school prizes are sent to the second-hand book-seller. In our universities, intellect of a high order receives full play and some admiration, but any attempt at overworking it must be accompanied by almost the same apologetic subterfuges as vice.

The recent pressure of life conditions in Europe has thrown another strain on education. It will be noticed that many middle-class parents, under the burden of taxation and a suspicion of an uncertain future for capital, have tended to save less for their children and have looked to an expensive education for both sexes to be a sufficient provision for after life. The young people are insisting that an expensive education should include at least a vast amount of healthy pleasure for them. It is invidious, perhaps, to turn a philosopher's lantern on these cheerful aspirations of the young, but, to bring the problem to the test of Value, to what account in the family ledger should the expense of modern school and university education be debited: Expenditure or Capital Account? If Expenditure Account, well and good; but if Capital Account, where is the permanent asset that results? Whenever the answer to the question is unsatisfactory, those in the next generation will have to pay for it.

In short, we are here face to face with a new and very difficult standard in family life, and I am not sure that for the moment it does not outweigh all the others in immediate and practical importance for the Anglo-Saxon world: the Standard of Enjoyment for the Young.

It would be possible to add something to the discussion of Standard Values by passing to a few instances from the life of the Latin peoples, to whose case much that I have said above only partially applies. As to the differences, some might involve criticism, in which I do not think it is either necessary

for me to indulge or wise of me to embark, in view of my comparative ignorance of their social conditions. I may safely conclude, however, with the remark that any one who should wish to appeal to the small international world of intellect would always choose the French language for the purpose if he were fortunate enough to have a perfect mastery of it.

Section 4.—THE LOWER LIMITS OF STRUGGLE

Standards of Comfort are undeniably prevalent in all classes in modern rich countries, but they are naturally associated conspicuously with the middle class. They are maintained by internal struggle and the practical boycott of failures along well-known lines, which divide each rank from the rank below it. But how about the rank which has no rank below it ?

Far the most interesting of all the standards is that maintained by the working poor. It is the most noble ; it is the most powerful politically ; its rights and wrongs are almost the rights and wrongs of the nation.

What is the lower limit of struggle for the class which has no lower class to receive the unfortunate beings who are pushed by deserved, or undeserved, failure through the fine meshes of the economic sieve ? Before the recent changes the line was not far from the subsistence line in ordinary times, and below it during unemployment unless permanent poor relief was taken. Some credit has always been given to the poor for their reluctance to accept relief, but never enough. The detestation of this form of dependence was only partly due to individual dislike of its conditions, but much more to its recognition as a seal of failure, as amounting to exclusion from decent standards, as a sign of having given up the struggle.

Even now, with modern provision for unemployment, the tacit general acceptance of the term "dole" implies a similar criticism. The fight for the Standard of Comfort is maintained as stoutly as ever. We hear as much of the evils of unemploy-

ment in the days since its distresses have been mitigated as we did formerly, when it involved atrocious suffering. There is only one respect in which the social boycott hovering round the "dole" and "relief" is lifted, and that is in the use of them both to maintain Trade Union rates of wages. Their bargaining Value is recognised, and it is considered to be no shame to use them in the industrial disputes with employers.

What may be termed the fighting aspect of unemployment pay and of outdoor relief is worthy of investigation. The use of the discrediting terms themselves, with this new meaning, has got beyond the stage of involving a sneer. The latter has been used to maintain the resistance of men out on strike, not only freely in an eleemosynary way during acute distress among the indirect sufferers of the strike, such as men in other trades unavoidably thrown out of work, but also for the wives and children of the men on strike themselves. In very recent cases after the Great War it has been an avowed policy among popular leaders to use public funds, such as those for poor relief, for the benefit of one side in what is undoubtedly a sectional economic quarrel.

It remains to be discussed in a later chapter how far this policy can be considered ultimately beneficial to the workmen in whose interests it has been begun. As to its political injustice to the middle classes and general public there can be no question. As in the case of most injustices—in fact like all—probably it will be found that no corresponding benefit accrues to the bulk of those in whose supposed interest the policy is pursued, and that even in their case the net result is a heavy loss.

As to Values, I may remark here that the effect of unemployment pay for a limited period is to remove from privately-accumulated Trade Union funds the obligation of maintaining, for some time, the accepted minimum alternative to the accepted Standard of Living of the class of workmen who receive its benefits. While it does not release all the funds of

Trade Union for bargaining purposes, it does, in effect, do so to a large extent.

The public benefit of unemployment pay is to maintain, for a time, the level of efficiency in the workman, in other words, the Value of his capacity for labour for a considerable period. If he were content with unemployment pay alone, it would disincline him to seek for work at once on being thrown out of employment. But, in this respect, we may rely in future on the pressure of his Standard of Comfort exercising at least as strong an influence to induce him to get employment as the mere pressure of want tended to do in the past. According to the Law of Comfort, the pressure may, in the end, come to be greater than it was under the Law of Subsistence.

By the Law of Comfort, I mean the generalisation, supported by experience, that men will come to value a certain degree of comfort more than they will mere subsistence. They may desire mere Life, but they will value Comfort, because their power of effort is greater.

Taking all the funds of relief together, (a) the Unemployment Pay, (b) Trade Union funds, (c) Poor Relief, they may be regarded as a final buffer below the lowest respectable Standard of Living accepted in a progressive country.

Now, what will be the attitude of the men who benefit by these funds towards the regular, or occasional, use of them? It is already beginning to show signs the reverse of what most people might expect. Instead of regarding them as legitimate final life-saving apparatus, to be used in extremity of poverty, they value them solely as an industrial weapon. To use them for relief is to fall below the accepted Standard of Living, to tend to pull down the habitual comforts of the class, to pass out from the free-masonry of self-respecting, self-maintaining men. To accept them as a means of continued resistance in a dispute to maintain or raise wages, whose minimum represents the Standard of Comfort, is considered to be the act of free and noble men, implying no loss of self-respect. We see here

one of the scales in the hand of Economic Justice very heavily loaded against the other.

Section 5.—THE OPERATION OF THE SUBCONSCIOUS
ELEMENT IN STANDARD VALUES

It is time here to refer to the important section of Chapter VIII, which dealt with the Subconscious Element in Value. Although the class standards are maintained, to some extent, by conscious effort, nowhere is it more true in Political Economy than here, that the power of movements, so universal in character, is drawn from the reinforcements of the Unconscious Self. The unity of opinion, the faculty of unswerving co-operation, the remorseless execution of a combined plan, all point to stronger forces than exist in consciousness.

The settling of the Standard Values, which are the fighting boundaries of each class, no doubt begins in consciousness and belongs to the sphere of the Moral Element of Value, but the persistence in maintaining them is drawn from deeper sources.

We do not always see the prevalence of moral influence in the choice of some of these standards, in fact many of the standard amusements of the poor, which is also true, no less, of the rich, altogether disregard moral sanctions. So far as their habits are opposed to morality, it can safely be said that those unconscious forces, which are reinforced by moral opinion, have a steady persistence which will, in the end, give them a superiority over the more fugitive tendencies. Their ultimate fate will, no doubt, be brought into some sort of alliance for the continuance of the well-being of the family, so that Standard Values, protecting standards of living, will, on the whole, be more and more controlled by feminine influence.

The women now have far more to say in determining them than the men, although there are great exceptions. The men, for instance, show no signs in this country of giving up gambling, which is more universal than mere individual preferences

would account for. But, unreasonable as the practice is and inimical to their particular interests, the women are not overcoming the tendency ; some of them are even being drawn into it.

On the other hand, soberness is undoubtedly making way with both sexes, and there can be little doubt that the responsibilities of marriage and family life are subduing the evils of excessive drinking through all the lower classes. This gradual change has already accomplished itself to some extent in the middle and upper classes. The addiction to drink has quite passed out of the class of pardonable offences in all walks of social intercourse.

CHAPTER XIV

THE MULTIPLE THEORY OF VALUE

She's backit like the peacock.

WILLIAM DOUGLAS OF FINGLAND :
Annie Laurie (Original Version).

It seems rather late in the argument to claim to be bringing forward the central point of the Psychological Theory of Value, yet such is the case.

We have had the definition, or, rather, the four definitions, of Value, of which the economic definition is the only one that covers the whole ground of internal causation and external conditions. But a modern definition is like a *cheval de frise*, whose decorations are not intended to demonstrate the natural qualities of the noble animal, but to keep critics at a distance and exhibit a sharp point, turned in every direction, against attack.

We have also had two explanations of Value and Exchange Value ; the first in Chapter I : on the Nature of Value, exposing the distinct reaction on Exchange Value of the separate Values for the same object of the poor and the rich ; the second, more comprehensively, at the end of Chapter IV : on the Grouping of Values, where the composite nature of Exchange Value was discussed.

Here, for the first time, it became apparent, that we are examining, in our subject-matter of Value, not a single phenomenon, single, that is to say, in being the personal mental or moral state of one individual, but a phenomenon of group psychology, importing the relations of one mind to another, or to many others. Let me repeat the passage :

“ What determines the particular exchange Value of any

single object is the inter-action of the whole group of Values which we call Demand. This group of Values, if we may use a spatial metaphor, resembles, in its nature, a cloud of varying intensity which stretches out in a blunt point in the direction of the responsive cloud of Prices. The point is itself a small cloud, representing a number of Values by richer members of the group, the members who have the means to satisfy the more sanguine estimates of the sellers. Where one cloud meets and overlaps the other cloud, the corresponding cloud of sellers, we have Value-Prices.

“The thickest part of the cloud, the chief mass of the group, is a body of opinion consisting of the strongest wills, not yet equipped with sufficient means to buy, but instinct with desire and imbued with hope of being able to do so. This centre of gravity of opinion and desire in travail influences the minds of the fewer and richer units, who effect the actual purchases. It is the energetic poor who create the high Values. It is the rich who pay the high Prices.”

I am not satisfied to consider this passage as merely illustrative and metaphorical. If we drop the word “cloud,” and consider only the word “group,” the statement is not only literally true, but it also describes a fact of great importance which, in the present condition of our knowledge, can hardly be more closely defined. The Psychological Theory of Value is not complete in contemplating the psychology of one individual, it must embrace, in its comprehension, the psychology of many. Its statement cannot be complete without the more complicated Multiple Theory of Value.

Let us examine the simpler facts of the case as they appear in economic behaviour. I will not go back to the time when life was nasty, brutish, and short. Take the case of refined enjoyment, such as the degustation of a bottle of superb wine, the running of a new car, the parade of magnificent jewels, the possession of a fine estate or superlative artistic treasures. How long can the joy last? How much of the pleasure can be savoured in solitude? Except for the purest intellectual

enjoyments, and I never heard of much economic competition for them, there is no duration and no reinforcement of pleasure taken alone.

In less individual matters, what is characteristic of the personal tastes and economic behaviour of the very wealthy ? It is difficult to arouse their attention or incite their pursuit. They value little that is within reach of their ample means except the simple pleasures which they have learnt to take in moderation. On the other hand, what desire for enjoyment there remains in the young, whose tastes have been judiciously restrained ; in the ambitious man, who places his aims high, and in whom every step in his career renews his preoccupying desires ; in the man with education above his means, whose chief occupation it is to overvalue everything outside his reach ; in the disappointed man, to whom his lost prospects shine unutterably fair ; in the rising hostess, who has long viewed the inner circles of boredom with desperate envy from afar ; in the fresh beauty, to whom her charms open for a time gay, sparkling avenues crowded with renewed surprises and untold delights.

It is impossible to be dogmatic about the actions of individuals, whose inner history is unknown, but about gregarious men and women in the mass it is possible to reason with certitude. The most satisfying objects of pursuit, those which give recurring and almost abiding pleasure, are those which are the objects of ambition, of emulation, and of strong economic competition. It takes more than one man to make high Values. A man who has the means to buy a particular object does not want it for itself very much. A man wants an object very strongly if something has occurred to make it appeal to his imagination and the means to obtain it are beyond his reach or only just within.

Economic Values depend largely on social estimates because, in the nature of things, enjoyment can only seldom be taken alone. Envy and rivalry can act in stimulating fashion as a spur, not to those who are their victims, but to those who

strive triumphantly against them. Even as indirect motives they have but a short course to run. The great and permanent stimulus to effort is community of feeling, and emulation for prizes in a race, where success is not too greatly envied, where generosity has some play, where love, and good feeling, and friendly sympathy are not cancelled by the spectacle of the pleasure of others. None but intellectual pleasures are strong enough to render men independent of the joy of their fellow-men in their own fruition. Nor is their course free of end.

Two separate points emerge from these reflections. The satisfaction of only the very simple Values can be enjoyed alone, and even these, curiously enough, are not permanently sources of satisfaction.

Eating and drinking to sustain life is the nearest approach to single and quite primary satisfaction that we can name. It is notorious that it requires great courage, and great power of imagination, for a solitary human being to sustain life, amidst ample stores of food, in absolute solitude. There are even some animals which cannot endure it. Companionship and community of feeling are even more necessary for the maintenance of the higher Values.

The second point is psychologically allied with the first. The possibility of immediate satisfaction of Value with little effort has almost a similar deterrent effect in regard to ordinary human nature.

Men do not very much want what they can get with ease.

Even the objects of high Values are not in themselves attractive to the man of unlimited means. The very rich, and many of the rich, and many even of the well-to-do, or merely comfortable, find whole classes of commodities, once desirable to themselves and still wholly desirable to other people, absolutely without attraction. The objects are not, in themselves, objects of Value any more. They can become objects of Value once more only as contributing, in some small way, to an imagined scheme of life and well-being. The maintenance of such a scheme, as a valid incentive to the individual imagina-

tion, is almost impossible in solitude. The internal craving for a valid incentive renders nearly all of us wholly dependent on the co-operation of our fellows.

The Multiple Theory of Value can be described as follows : With the exception of Values for objects required for elementary needs, and they only to some small but indefinite extent, all Values depend essentially on the co-operation of two or more minds sharing common ideas of well-being, both consciously and unconsciously. The higher Values are so deeply dependent on highly developed social opinion that any claim to the reality of their individual existence may be deemed to be hypothetical ; their social reality is infinitely more valid than any that can be ascribed to an origin which may be called individual. Originality in Values is, therefore, an extremely rare phenomenon.

The moral sense, guided by our tangled and often contradictory experiences of discomfort-pleasure, undoubtedly yields the chief common ground for the growth of Values. It is often assumed that what is valued by many people has, for that reason, a high Value, or ought to have it. It is equally often assumed, on the contrary, that high appreciation by many is proof only of Utility, and not at all of Value, unless there is scarcity of the objects and competition. Neither assumption completes the philosophical case.

Community of sentiment, fostered by the moral sense, promotes the mass of Values. Among the mass of Values, individual Values of exceptional strength, under the spur of necessity, try out their respective validities by way of emulative effort. Desire and effort each do part of the work.

As to the share of discomfort-pleasure in forming a general or public opinion of Values, its psychological action is not direct, as Bentham supposed, but operates subject to the moral judgment. If Bentham had been a man of the world, he might have seen some spots in his utilitarian sun ; if he had had religious or philosophical insight, he would not have tried to spread his little tent to cover as much ground as St. Paul or

Plato. Of all the possible philosophies, on which a new science could have been founded, none so small was ever selected as by the new Political Economy of the nineteenth century. Adam Smith's metaphysics offered a much broader and, possibly, a firmer ground.

To return to the recognised test of psychological validity, what confirmation of the Multiple Theory of Value is to be found in economic behaviour in the richer classes? The argument has been directed to show inductively that community of feeling, guided by the moral sense, is the chief determinant of economic Values. Exchange Values are only a few selected Values out of a larger group of Single and Operative Values called Demand. The presence of high Exchange Values is not explained at all by the individual psychology of the small class of rich people, who alone are equipped with the means of paying high Prices. This small group do not desire very strongly all these commodities on which their wealth is expended. They do not relish more exquisitely the finer grapes out of season than the poor do the ordinary grapes in season; they have quite simply made themselves generally indifferent to any kind of grapes, a disability which a few of the more intelligent, and the more highly bred, carefully avoid by all the means in their power.

The newly-arrived rich, whose habits are more significant economically than those of the older wealthy and aristocratic class, are occupied in acquiring, as rapidly as possible, the new disabilities and indifferences to which their ample means entitle them. They are interesting philosophically, because they can be observed in the act of dispensing with one set of social habits and graces before they have endued themselves with the new. The funny papers catch them for a moment morally naked. They are by nature gregarious and their Values are transitory. But one important fact remains true of them in both stages of their triumphant career: that the bulk of their expenditure does not pass for personal enjoyment but for show.

The show is of a solid kind, often not by any means vulgar, almost certainly allied to a recognised moral standard. The enjoyment is always an indirect one, implying dependence on the approval of the class which they are leaving, or of the one they are joining, or, if possible, of both. They belong equally ; by the talents, which have brought them to the top ; by the industry, which has made them uncritical of pleasures ; by their trained indifference to standards of unmaterial success ; more especially to that human type which cannot, by any possibility, stand intellectually alone, except in so far as a high quality of brains has been necessary in their own specialty to their advancement in life. In that specialty they have a mastery and an invaluable independence of judgment. Outside the haven of their supreme talents, there is no class more sensitive to opinion as regards consumption. The ruthless qualities which have brought the great financier to the front wilt before his wife's criticism of the family costumes, his son's remarks about cars or horses, and his daughters' selection of a country place for the holidays. His success has delivered him over, bound hand and foot, to these echoes of public opinion. Watch the poor millionaire travel over Europe and note his anxiety to return to his office and his club.

Even if ample allowance is made for the personal insignificance of many of the economically efficient and wealthy class, it is impossible to disguise the fact that their example trickles down the many steps of the standards of comfort before we reach the more interesting level of those who are socially free to enjoy themselves. Are they less gregarious ? Are they less moral ? Are they not subtly at one, in their days of moderate prosperity, with the hierarchy of those classes by whose careers their imaginations are inflamed ? Their pleasures are less frequent and more genuine. Their troubles are more stoically borne. They are less inclined to step out of the consequences of their own mistakes and to unload their misfortunes on to other shoulders. Yet, in times of grave trial

and deep distress, the higher and the lower classes can show an equally fine and brave front, and in many unacknowledged ways there is a subtle bond between them.

It will be remembered that, in the discussion of crowd psychology in Chapter VIII, a point was made that proximity was a very different term when used in a local sense of physical contiguity or in a temporal sense, or, again, in a mental or emotional sense of community of thought or feeling.

Now with regard to feeling, relations of community are easily established with local and physical proximity but thought rather with an approximate temporal synchronisation. Of the two, mental relations are far harder to establish than sympathy of emotional states ; but, while the latter are more powerful, it is probable that true intellectual relations are beyond all others, the most enduring. They do not exclude emotion, but have no natural affinity with it.

The question arises whether the unity of minds, which is expressed in a group of Values, is caused by a consensus of thought or of feeling. It is undoubtedly somewhat influenced by both. Opinion, or the Mental Element of Value, counts for a great deal in assessing quantitative estimates of Price, or the sacrifices that may be necessary in order to acquire an object. The tendency, however, of all mental estimates is to be slightly unstable, owing to the natural activity of the mind and the difficulty of obtaining precise information. Mental estimates do not easily settle down into a community of opinion, but if they are founded on exact fact, they only vary within ascertainable limits. Moral estimates are swayed by emotion and come and go in waves. Demand for goods of a certain kind is, therefore, stable or unstable accordingly as these commodities satisfy permanent and recurring needs for the maintenance of life, or merely offer adventitious satisfactions, for which many alternative means of Supply are available.

It is roughly true that the influences of thought and feeling are not operative together. Certain objects of Demand become settled by common consent as necessary ; certain

qualities of food; certain staple materials and prices of clothing; certain standard implements of enjoyment and amusement. On these broad instruments of fuller life the Mental Element of Value has been for centuries at work, and their stereotyped forms vary very slowly. In different sections of life take examples such as the piano, the set of cricket apparatus, the bicycle, the loaf of wheaten bread, the tin of fruit, fish or meat, or the bottle of wine or malt extract. Certain other groups of implements, such as sets of china, plated ware, motor-cars and gramophones, gradually creep into this class after a probationary period of novelty. Demand treats them as units, and the varying Standards of Comfort incorporate them, more or less unchanged, into their schemes of family life.

On the other hand, foods and furnishings, amusements and clothes, are subject apparently to unlimited variety of choice, in kind as well as in quantity. The limitations that are imposed are not objective from the point of view of Supply, but subjective according to the style of living assumed by the position in life of the family in question. This brings us to the realms of fashion, which is the subjective and dominant factor in the area of nominal free choice. It is in this realm that the Multiple Theory of Value is safely established, where the social mind rules with an iron sway, where youthful choice and feminine standards dispose of the bulk of the earnings of the man, who is called the breadwinner.

Above all, it is in the fashions of women's clothes, in the setting of house and car, and yacht, and amusement or health resorts, where social habit is tyrannously displayed and the most mysterious operations of Value really take place. Now, what used to be true of Vauxhall and Almack's, of Ascot and Monte Carlo, and fashionable resorts too to-day, is carried on down through every grade of social level to the local dances, and holiday crowds, and mothers' meetings, and everywhere above the poorhouse.

What is the explanation of this all-pervading rivalry, carried

on mainly by women, for themselves and their families, and by fathers, also for their sakes ? The answer is by no means a paradoxical one ; it is, very seriously, that they are the symptoms of Social Struggle ; the banners of the Standard of Living and Comfort ; the great prizes for which the economic contests of speculation and industrial competition, the pressure for higher salaries, the fight for higher wages, are carried on. No one suspects any of them of affording more than a moderate amount of enjoyment, and their acquisition often imposes serious privations in other directions. They are the barriers which rank after rank of the social orders place between themselves and a fall from their self-respect. They are Society's defences against overpopulation. They are Class-Values and they are the products of the Class-Mind.

With men, the results are acclaimed as accomplishment ; with women, as the free air of a free life above cruel care ; with both, as the realm of self-respect and the meed of the respect of their fellows. What I am concerned to prove is that this vast bulk of expenditure, representing all the surplus above mere living and coarse amusement, which a rich nation can spare, is not the product of the choice of single minds but of common opinion, of the joint Values, both of those who can afford to buy and do buy, and of those who cannot buy and desire to buy all the more eagerly.

How capable the Unconscious Elements of Value are of being misunderstood is very conspicuous in popular economic rhetoric. Nowhere can the purposively moral and defensive Standards of Comfort, essentially characteristic of the poor, but more glaring, perhaps, in the newly rich who were only recently poor, be seen more consistently misrepresented than in sophistical diatribes against extravagance. There is very little pleasure in, or by, extravagance. Extravagance in pleasure, both among the poor and among the rich, has a short end.

The newly rich, however unlovely in their haste, are not, as a rule, stupid ; they are still close to their unconscious origin ;

their lives, showing signs of struggle, are indiscreetly frank ; they do not themselves seek pleasure ; they certainly do not understand it. They are still too sensible of past vigorous actualities and hesitantly dim as to the proper use of the scope of their newly-acquired powers. If they are really anxious about anything as regards expenditure, it will be to complete adequately in the most exact way, each little coloured pane in their early picture of a crystal palace of delights.

Naturally, their sons and grandsons, falling away from parental strenuousness, make foolish experiments in pleasure, and do not appreciate at once either the true utilities or the concealed fallacies in the experienced, but not too actively intelligent, placidity of the higher class, among whom they have come to live. The young people have no hesitation in using, with careless freedom, opportunities and riches, which they value less than did their parents before them. They may attain to find that the empty shells of pleasure have an anti-quarian value. By this roundabout way a good many of them come to be gentlemen.

Another popular, and not unnatural, error is that under present conditions, the bad example of the rich, in ostentatious self-indulgence, is a greater evil than their supposed idleness, because it spreads inefficiency so widely. This is a psychological inversion of the truth. The experienced rich are seldom extravagant except in their early youth. Their simple pleasures are imitative of the poor, who still have the sense of enjoyment. The sad experience of riches brings them slowly to the truth that pleasures themselves are relative, and that their pursuit is a fugitive joy. Other aims take their place.

At one time the calculated extravagance of a few rich in great positions had a grandiloquent and political value, which is fading away, but has not yet quite disappeared. The singular unfortunate victims of this feudal necessity soon found it to be a disability, as in the case of Lord Carlisle, who, when he was Viceroy of Ireland, did not know how to take a railway ticket. But war and motor-cars, and Mr. Rudyard

Kipling, have changed this vapid advantage and real absurdity, so that the young men of wealth and position set a very different example to-day of fitness and self-sufficiency. Their example is truly handed down to an active generation of youngsters who have few illusions.

The old-fashioned Socialists are left rattling their chains, made of dry bread-crumbs and dull tin-foil. The new ones are oiling their printing-presses and looking up their statistics.

It was an old-time belief among the pious Victorians, perhaps not quite well thought out, that the poor and the rich were necessary to one another. The exact sense of this necessity needs definition. What is quite certain is that they cannot do without each other at present. Together, arm-in-arm, they make the Values on which our strenuous civilisation is founded.

Values are created quite as much by those who cannot afford to buy as by those who can. The possession of ample means does not bring with it increased, but lessened, desires. The supposed extravagance of the rich is less, relatively to their means, than the extravagance of the poor. Those spend most freely and joyously who are rising from one Standard of Comfort to another, owing to the rapidity of their change of fortune. They can afford to adopt the ideals and fashions of those above them and they have not time to lose the zest of expenditure on what was so little while ago beyond their reach.

The career of ambitious men is fixed by some early dream of unforgotten and misunderstood delight in some typical object far above them. The self-denial of refusing gradations of well-being, sternly passed by them on their way up the ladder, acts as a spur to their inflamed imagination until the final stage of coveted prosperity becomes stereotyped as a vision and the desired enjoyment takes an inferior place to that of the pleasure of the game.

¶ In the most able men, who find themselves in the way of honourable advancement, the instinct of accomplishment soon

becomes in itself overmastering, which is one reason why the task of expenditure of great fortunes is so easily left to the women and the family.

There are, however, masculine standards of luxury which take rank after family claims with married men, and take precedence of them sometimes with spendthrifts and gamblers, who lie outside the economic sphere. The game of golf is a social step; the expensive club; the country house; the grouse moor; the yacht and racing are pleasures certainly masculine. But, as a rule, they subserve family life in economic behaviour and are placed after it.

CHAPTER XV

EMPIRICAL ANALYSIS OF THE PSYCHOLOGY OF DEMAND

While technical thought or skill enables a man to deal with the same circumstances that he has met with before, scientific thought enables him to deal with different circumstances that he has never met with before.—W. K. CLIFFORD : *Aims and Instruments of Scientific Thought*.

THE community of feeling, which evokes and fosters Demand, was empirically discovered by advertisers long before it was theoretically elaborated. To arouse an efficient Demand for 5,000 pairs of boots, a desire for buying boots of that standard quality and price must be stimulated in a far larger number of people than 5,000, and the population appealed to in advertising must be still greater. As Supply will soon produce another 5,000 pairs of boots, a steady sale can only be secured by a continuity of Demand ; which implies that, while replacement of worn boots ensures some recurring Demand, there must always be oncoming fresh customers to absorb anything like a steady output. The most important qualities required of capital in modern producing conditions are foresight in anticipating the wants of large numbers of people, courage to take the risk of supplying them, and steady application of the policy of eliciting fresh Demand.

This intelligent reading of future Demand is only made possible in the present days of scientific modern business, when hit-or-miss methods are too dangerous, by a close study of the true origin of Values. Appeals to scattered and fugitive Demand must bring short shrift to mass production. Appeals to wide Demand and steady powers of absorption must take the direction of some community of feeling ; some aim at

satisfying moral needs, in the strict sense that the term has been used in this book ; some attempt at elevating the standards of efficiency and comfort in a large class. It is necessary to bear in mind also that many frivolities and fashions have a serious purpose, a moral purpose, which may only appear misguided to those whose tastes are accidentally more cultivated or to those who have been brought up in points of view which bring the sudden changes of fashion outside their own social scheme and, therefore, renders them unintelligible.

In order to show how keenly the modern problem of " analysing the market " appeals to the modern business mind in America, I venture to take a few extracts from an article by Mr. H. D. Kitson, published in the November number of the *Annals of the American Academy of Political and Social Science*, called " Understanding the Consumer's Mind." He notes the following four facts :

(1) *The consumer is Impersonal.* The first task of the market analyst is to strip him of his anonymity and endow him with personality.

(2) *The consumer exists in the Mass.* Whereas the clients of a hat-maker of a century or two ago might number only 100, each of them a personal acquaintance, those of a hat-maker working on a twentieth century scale of production may number 1,000,000.

(3) *The consumer is widely distributed.* He not only exists in a mass but the mass extends over varied geographical regions.

(4) *The consumer is a many-sided individual.* He is an economic entity with a determinable capacity for earning, saving and spending. He is a social unit, living in a world of family, neighbours, and friends. He is an ethical individual, controlled by ideals and habits, which have been instilled in him by moralistic teaching.

It is, perhaps, to the last point that I should attach the most importance ; community of feeling is only stable in the sphere of moral and emotional life. The intellect is an Ishmael.

Besides, there is something in the belief that the pleasures of the intellect are their own reward. The pursuit of truth follows the only path outside the family life which leads to single happiness, and little provender is needed for the journey.

The desires of the consumer are followed through a psychological course in which the six headings are enumerated : Attention, Interest, Desire, Confidence, Decision, Satisfaction. My criticism of them, together taken, is that there is no logical division between the steps of the series as they stand : Attention and Decision being the only steps that are far apart ; Confidence and Satisfaction having only time differences ; and Interest being really inseparable from Desire.

Still, as an empirical division, they represent six separate stages whereby the seller, and the selling organisation behind him, must time his approaches, or else the six tasks, whereon he must concentrate his will. It must be remembered that, among advanced commercial men, the business of selling is now regarded as so much a matter of personality as almost to amount to hypnotism. However, such details of personal contact between seller and buyer may be what Aristotle would consider as belonging more to *Banausics* than to *Economics*.

How closely the empirical side of Demand has been studied in the details of selling and advertising business no one has any idea who has not acquaintance with modern commercial practice. Statistics are kept over considerable numbers of years on such questions as the use of borders to advertisements ; the progression of artistic design in cutting of type faces and newspaper illustrations ; the proportion of the expenses of a selling organisation to the amount spent on advertising. What compels this considerable, but irregular, concentration on practical details is the increasing amount, and the increased proportion of the amount, that selling expenses of all kinds continue to bear to the simple costs of production.

It is unusual for any one to pay attention to the central or economic principles of Demand and Value, largely owing to a

divorce between the academic and the practical extremities of what is, after all, but one and the same science.

Progress in the same direction has also been made in this country, but not quite on the same lines. Mr. Thomas Russell has written, for the Modern Business Institute, a work on "Advertising," which deals with the question more scientifically than I have seen it treated before. I am allowed to quote from him some of the surprising results which observation of the psychological behaviour of the public in reaction to advertisements has produced : *

" *Experimental methods.*—Careful analysis and experiment will often yield highly detailed information. The advertisers of Oatine, a preparation for the complexion, discovered by these means that one particular illustration always increased the efficiency of announcements. There was one 'Oatine Girl' who alone seemed capable of raising sales to the maximum. Although the reason for her supremacy eluded her creators, they profited by making this particular picture an invariable feature of their advertisements. In 'following-up' inquiries for the prospectus of the 'Encyclopædia Britannica,' it was found that the mere use of the word 'only' in naming the instalments, which had to be paid ('only £1 a month,' etc.), measurably increased the number of orders received. Martins, Ltd., know with assured certainty the shade of colour which, when used for pictures of cigars, will give the best results.

"Much wider principles are constantly discovered. The best basic plea for purchasing may only be revealed after some experience, and it may surprise the advertiser. It was found by the John Hassall Correspondence School that the most powerful motive for inducing pupils to enrol was not, as had been expected, the money that an artist can earn, but the dignity of an artist's calling."

Mr. Fred C. Kelly, an American, in his useful work, "Human Nature in Business," says :

* By kind permission of the Modern Business Institute, Ltd.

“ If there is one faculty of the advertising man which, more than any other, makes it possible for vast sums to be spent on advertisements with profit, beyond all doubt it is the certain knowledge of this—that if the number of individual persons tested is large enough, you can be certain that all but a negligible minority of them, in the same circumstances, will do the same thing.”

On the other hand, the late Dr. W. H. Page, the well-known publisher, formerly American Ambassador to this country, wrote, in his “ Confessions of a Publisher,” the following :

“ The whole question is a subtle social one. Who could have foretold popularity for ‘ pigs in clover ’ rather than for some silly other puzzle ; or for ping-pong ; or for women’s hats of a certain grotesque construction ? The popular whim about novels is like the whim for these things. And a popular novel passes as quickly as any other fashion. The story has been told of the sudden failing of the demand for ‘ Trilby ’—so sudden that the publishers had a large number of copies left on hand which could not be sold at all except as waste paper.”

My own experience in newspaper management and publishing has led me to believe that in those popular movements, which constitute variations of demand, ranging from the whim of temporary fashion to that other opposite, an assured and permanent popularity, there may be considerable stages of instability and stability which pass from one phase to another with a degree of rapidity which sometimes eludes observation. In the secure establishment of a popular newspaper, which implies a very much greater degree of permanence than the popularity of a book, on account of the requirements of periodical publication, it is beyond question that the attainment of a set form, which is acceptable to the public, is a matter of great effort and unceasing attention, and, it must be confessed, some degree of good fortune. There comes a stage in the history of all successful periodicals when a limited public receives into its confidence and even welcomes a certain model of what it likes, and based on this model success is assured, with

very little variation necessary. On the basis of this model, the periodical publication can be carried on for many years together with comparatively little change except in the continual supply of fresh matter on the same standard lines. An end will, sooner or later, come to this happy condition of things, and the public, which has supported the paper during its career of popularity, will suddenly give signs of a change of taste, and at this point the newspaper or magazine must learn to change its character with considerable alacrity if it wishes to retain its popular hold. But the psychology of newspapers is a separate subject in itself, and a branch of Demand which cannot be properly treated as a part of the general demand for commodities as a whole.

CHAPTER XVI

THE LAWS OF SUPPLY AND DEMAND

Thin cum ric.—ANGLO-SAXON BIBLE.

THERE has been a great deal of controversy over the Laws of Supply, and they have, to a certain extent, become commonplace to the point of making us forget the importance which they formerly assumed in the eyes of economists. It was the application of the Law of Diminishing Returns to agriculture which first gave prominence to the theory of population, as formulated by Malthus. So long as the production of food and raw materials depended more on the sources of supply than on the methods of development of the science, there was a menace of curtailed production.

But, during the course of the nineteenth century, it became apparent that supplies of crude materials were not so much limited by absolute laws of quantity as by relative laws of cost. The lands of the world were, and are, far from being near the point of their maximum possibility of production, but the inclination of skilled labour to endure sacrifice and exertion for small reward was diminishing faster than the provisions of opportunity for their exercise. The modern problem is rather how much we will do than how much we can do to supply ourselves with food. We have got to the point of not caring to exert ourselves long before we will reach the appalling prospect of finding ourselves unable to subsist, even at the cost of enormous effort and final exhaustion. It is a case of Standards of Comfort and not of Standards of Subsistence.

It is, therefore, hardly worth while to reformulate the Laws of Supply. They exist psychologically in our will and not physically in our environment. On the other hand, the Laws

of Demand, which were always taken for granted, have become more and more important with developing civilisation.

From the subjective point of view, the study of Value embraces the Laws of Demand. It remains, however, to visualise the effects of Demand, or Groups of Values, from the opposite point of view of Price, which should be explained as the concrete problem presented to the seller, who has to meet fugitive and vacillating desires of customers with a steady Supply. It was that problem that I attempted in my earlier* study of economic behaviour. Fortunately for the seller, who represents the producer, there are ways and habits of the buyer which can be understood empirically without involving in each case the complete psychological analysis of Value which the present Theory of Value imports.

For instance, if A., B. and C. purchase supplies of a staple commodity from a dealer and thereby exhaust their own Values, the dealer has not, as he might have to do in a country town, to wait until the same customers come back to him for fresh supplies; he can sell his goods all the way down the alphabet. He is also reasonably sure that for most commodities, A., B., C., will ultimately come back to him, or if not to him, at least to other dealers whose customers might, in return, be transferred to himself. The problem of the combined dealers, and under modern conditions of massed production some understanding among sellers is quite necessary, is to secure that they do not offer together for sale, during any one period of time, more than the combined customers from A—Z will require to consume during the given period of time.

It seems an easy problem, but, as a fact, in business it is extraordinarily difficult to arrange.

How difficult that task is there are two ways of realising. The first is simple and expensive: to raise the means of starting production in the most approved modern fashion, and thereby to ascertain the difficulties of marketing the product

* "The Laws of Supply and Demand."

by actual experiment. Unquestionably the problem of finding a sure sale for the goods will prove to be more difficult than building and equipping the factory and organisation. The second is by a close inductive study of the actual conditions of business enterprise.

For such a study the present few years of distress and unrest after the war are unpropitious ; but already in America, where war conditions were more transitory than in Europe, and where the commercial experience of the general public is unquestionably more advanced, there is a growing body of work, based on present workaday experience, untinged with theories of economic historic conditions, whose episodic validity is better understood than a few years ago.

Perhaps I may be permitted here to repeat the conclusion to my earlier inductive study of economic behaviour in 1911, a conclusion which has proved to have a stable validity in spite of the immense changes which twelve years of war, distress, and the dispersal of capital have brought upon us.

“ The kind of justice aimed at by our commercial system is not at all a moral one, aiming at the right appropriation of rewards for effort, or at the appraisalment of any other kinds of Value than that of mere desirability by those with money in their pockets.

“ In fact, it can hardly be called justice, otherwise than in the narrowest sense of the word, the securing an exact commercial equivalent for everything marketable with the greatest possible smoothness and certainty, and the accomplishment of as many of these exchanges as time will allow. The perfection of mechanism, the multiplication of transactions, the lowering of cost, and, above all, the saving of time, which is money, are its chief preoccupations.

“ There is no reason why anything so impersonal should be called good or bad, but its operation is a great deal more beneficial than is allowed by its enemies, who have not taken the trouble to understand it. The failure of all those who, during the centuries, have tried to amend it by political action, or to

transmute it into something more consciously just, has been conspicuous, and contrasts unfavourably with many more successful experiments in other fields of social reform.

“The difficulties that beset the full accomplishment of the ‘great exchange’ are, roughly, those of place and time. In the universal effort to make the largest number of exchanges in the whole-world market, goods have to be carried over immense distances and credit has to be arranged through a surprising number of links to secure payment. But this part of the problem is nothing more than the provision of elaborate mechanism, such as the wealth and skill of the modern world can supply in abundance. Even the element of perishability of goods has been practically abolished by cold storage, thus entirely conquering the question of distance in the case of foodstuffs. But the factor of time is the chief enemy of the elaborate system of exchanges. Let us suppose a negro in Tennessee growing cotton, which ultimately is sold in the Federated Malay States to a Chinese coolie growing rubber. The negro, at the same time, purchases some small article made of rubber grown by the other. The world system found no difficulty in carrying each article across, through dozens of hands, and offering it for sale at the right moment to secure a due profit to all concerned.

“It is at the last step that the difficulty occurs in each case. The prices of each article carry with them all those profits, calculated at a certain rate of periodicity of recurrence of demand. If either the negro is slow in his demand for rubber, or the Chinaman for calico, there is a loss in either case, and on the two single transactions there may be a loss in both, which is borne by the sellers.

“It will be noted that, in describing the above process of bringing goods to their market, we have to make a sharp distinction between the mechanical distribution of the goods and the art of selling them. Between the two there is all the difference that there is between bringing the horse to the water and making him drink. Yet, in the common nomenclature of

political economy, selling has been taken to be, as a matter of course, a function of distribution. It is a proof that the theory of economics has often not been properly in touch with real business, that that which is our chief everyday problem, to sell our goods, has been treated, in one sense, as coming under production, as when it is included in the 'cost of production' and, in another sense, as being a mere detail of distribution. It is neither; it is a third process, and vastly more difficult to effect than either of the other two. The crowning paradox of our economic civilisation is here: that while we have to make our goods with great rapidity to obtain cheapness, we have to sell them slowly in order to secure adequate prices, and while they have to be manufactured at central points in enormous quantities, these quantities have to be pressed through a fine sieve and infinitely divided over the largest possible number of markets in order that none of the demand may be glutted. It is the antithesis between the necessary conditions of modern production and the exacting demand of modern consumption."

Since these words were written, more than twelve years ago, I have modified my views fundamentally on a most important point, and more forcibly, in a wider respect, my views have been necessarily modified for me by the very exceptional experience, both in scale and in nature, which we have all undergone.

In the first place, the present deductive study of Value has led me to the belief that the kind of justice aimed at in our commercial world is not indifferently moral, as I supposed, but very definitely moral, as being part of general human intention. It is not, however, altogether part of our conscious intention. It is the net result of the working of our unconscious selves, whose aims, in so far as they are moral and directed towards the general good, are combined by their common properties towards a fruitful end, and, in so far as they are disparate and belonging to the order of inadequate ideas, continually pour themselves away, not altogether harmlessly,

but inevitably in futile fashion, into picturesque dead seas of their own, leaving tell-tale barren spots on the surface of our human history.

Many people will be content to see in this conclusion the invisible hand, to whose influence the great Adam Smith referred the hypothetically general beneficent result of competition. I think such a metaphor hardly applicable to the more comprehensive motions in the human spirit to which I refer. The invisible hand, which he supposed, might be inferred to work differently and, perhaps, more directly, and I am not called upon, in an economic sense, to discuss the possible course, or the presumed effects of its action. I wish only to point out, in the present connection, that the economic world is more moral than it sometimes seems to be, and to reassert a protest against any further attempt to prolong the assumption to the contrary.

Furthermore, it cannot fail to be remarked that economic behaviour is already very different from what it was twelve years ago, and the changes cannot all be presumed to be passing. The unravelling of the war-engendered tangle of crude hopes and premature dismays will be a long task. In the second part of the present book I have begun a brief consideration of prevailing tendencies. There is no doubt, too, that the new movements of thought are predominantly moral and directed towards greater distributive justice; on any other hypothesis they would have already exhausted themselves in five years of peace. It is not venturesome to suppose that this general moral character of the prevailing unrest is likely to endure, in spite of its being temporarily allied with many hoary relics of revolutionary antiquity. In the gay optimism of the Oxford of my later time, it was generally supposed that all troubles could be cured by referring them to a cheerful doctor or a gloomy dean. That view seems to me to be too sanguine to be true. What we chiefly need is close study of existing conditions and of present economic behaviour.

In order further to illuminate what I say, may I borrow a

brilliant passage from two authors, who have been very generous to me in quoting felicitously from my earlier book? Mr. and Mrs. Sidney Webb,* in order to present a vivid idea of the prevailing system of waste under dominant capitalism, suggest, by a striking simile, the inutility of much of the commercial machinery now in use, "Perhaps a more exact illustration would be a canal on which a number of unnecessary locks had been imposed, alternately raising and lowering the barges until they were finally delivered at the level at which they started and which they need never have left."

Needless to say, the criticism of our exchange institutions implied in the illustration, is not one that I endorse, but, with the omission of the word alternately, which would involve a series of small elevations to be crossed, the uselessness of these locks in series to be traversed need not necessarily be inferred. Suppose a comfortable student, engaged in reading philosophy for the final schools, commonly called "Greats," were passing by barge on a slow voyage from Birmingham to Oxford by canal, he might, in the occasional intervals of his mental abstractions, note that sometimes he went up, up, up, and sometimes he went down, down, down, and when he got to Oxford he might wonder what it was all about and what kind of thing had happened to him on the way. Quite a definite thing had happened to him, while he was immersed in his books. He had crossed the watershed.

* "Decay of Capitalist Civilization," p. 110.

PART TWO

INTRODUCTION

We should bear in mind that the activity of the mind in vividly recalling past impressions is one of the fundamental, though secondary, bases of conscience. This affords the strongest possible argument for educating and stimulating, in all possible ways, the intellectual faculties of every human being.—DARWIN: *Descent of Man*.

THE application of the Psychological Theory of Value to economic life in general is probably a matter of time. While it is not altogether new, it may be considered as outside the purview of most economists, and it has certainly not yet been adopted as a satisfying foundation for future economic study. I feel reasonably confident that it will be proved to have considerable solvent power for many difficult questions.

It may be taken as proved, for instance, that Price, being a form of Value, is not, in itself, so simple an idea as has been generally taken for granted. Even regarded objectively, as matter for history, it is undeniable that, to use a simile, Price is no more than one dimension of a larger concrete fact, of which the other two dimensions are Quantity and Time. To say that Wheat was 57s. 6d. a quarter in the year 1830 ignores the amount of wheat sold at that price and the period, long or short, during which something like that Price was current. Both those questions radiate out into reality as affecting the consumption of the poor and the amount of the reward received by the producer.

These and other considerations only confirm the fixed conviction of practical men, that even the history of Prices is of mild academic interest. One may legitimately hold the opinion, that history never repeats itself, with about as much reasonableness as the opposite view, that the same general

conditions will generally tend to bring about a similar concatenation of circumstances with similar results. There is as much evidence one way as the other.

What matters more than all the other factors in an economic situation is the correct computation of the amount of effort that is likely to be put forward in the near future for the attainment of specific objects and the analysis of the motives which may be expected to lead to those efforts. Any reasonable analysis of the motives and probable estimate of the amount of calculable efforts made by prospective customers will, in other words, set going motives of a different and essentially practical order with results by way of immediate effort in creating that particular kind of object or commodity in vast numbers. The increase of quantities will lessen the cost and, inferentially the Price, and, inferentially again, increase the amount of the Demand. If these inferential processes go too far, beyond the estimated Demand, the personal estimate of the effort of the producer will have gone for nothing, as far as he is concerned, since he will not be reimbursed for his own sacrifices.

All profitable economic analysis comes back to an estimate of human nature under a given set of circumstances. The circumstances are not, as a rule, difficult to ascertain; it is the study of human nature, which is ever strange, and ever fluctuating, and important. To rule out the psychological factor in economics, consequently places economic study at some distance from practical business, an actual misfortune, whose existence no one can altogether deny.

The necessity of this method of study once admitted, it is not right to counter it with a restatement of the difficulty of determining the psychological factor. Nor do I believe that the younger generation will continue to permit this neglect. The psychological theory of value will steadily make its way from the tentative beginnings, which one can perceive in the older economic writers, until its processes are formulated and its attainments will be rendered secure.

It is more doubtful whether the older method of psychological introspection will carry us much farther in the direction in which I have already attempted to use it, although the process may be done over again, and done very much better. To apply the newer experimental methods of psychology in pursuing the study of economic behaviour, is a pursuit whose usefulness will depend very much on the material available. To catch your millionaire and confine him in a closet in order to measure his blood-pressure, while you ask him, with menaces, for large loans on insufficient security, is a difficult method of experiment; but we shall certainly hear a great deal more of methods of judiciously approaching the buyer.

More fruitfully, on the other side, of production we may consider, in practical fashion, by what methods young men can be induced to think more carefully and value more the products of thought, to look forward less hopefully for large results from slight and ill-considered efforts, and to undervalue a little the amount of benefit received from studying the effects of brilliant physical culture in others.

The application of brains in yet another direction, to the saving of domestic commodities, such as fuel and meat, the supplies of which have hitherto been relatively abundant with our island population, and to directing the attention to proper methods of preparing food of all kinds, would be particularly productive of advantage, all of which immense increases to real wealth do not depend so much on organisation of perfunctory training as on the higher development of wants and the sharpening of critical faculties. In the upper and middle classes an increased perception of the value of theoretical studies might also be useful.

Even more hopefully may we appeal to the spirit of reason itself; not in all of us collectively, but in each individual mind. There can be no intellectual uprising of a common mind, comparable to the combining forces unconsciously derived from, and reinforced by, a general moral movement. Ideas are like flakes of snow in a thaw, they will not bind.

But the innate power of a true* idea will survive unaided many buffetings, and, once well and truly formulated, hardly can it be destroyed. Is it, then, true that moral feelings seek for common support by reason of their vagueness and native helplessness with an instinctive grasping at instinctive sympathy? It would be hard to say. That would be to deny moral strength to the single soul, and our minds and feelings leap to instances of the contrary and do them reverence.

The idea stands superbly alone. Even meagre and mistaken and malign ideas fight boldly for their existence. Victory seldom comes to the correctly formulated idea in the lifetime of its originator. Or we may invert the proposition and say that no important statement of an idea, grasping new aspects of known things, can be assumed to be true within so short a period of lapse of time from its origination as a man's life. The exceptions are few.

The question of the ultimate right to the title of originality in any theory, whether it does or does not claim to be new, can only be posthumously determined with exactitude. It is, nevertheless, interesting, in any case of the kind, to work backwards for any traces of an unfruitful start, or any tentative outline of an incomplete theory, with some appearance of novelty, not by way of discussing the secondary point of its originality but by way of historically inductive proof. Induction I take to be direct inference from facts. Historical induction I consider to be collateral proof of a just statement of a theory, in so far as it can be held to reveal a gradual growth of a series of statements of similar inductive character leading each time nearer and nearer in the direction of the complete exposition of the theory, whose exactness is being investigated. Precisely that nature of subordinate proof for the present Theory of Value I claim for it in its own history in two directions—

(a) The appearance of a gradual psychological explanation of Value.

* "Idea ideata."

(b) A persistent tendency on the part of many writers to ascribe a multiple character to Value implying the existence of other Values than Exchange Value.

These two tendencies do not overlap one another, but come from different sources.

A more just test of the validity of a theory is its re-application to facts on a broader basis than the scale which was responsible for its inception. Logically this process and reasoning is sometimes called an inductive-deductive method, which has always seemed to me to be a contradiction in terms. It is no more than pure deduction, following induction, and being itself preparatory for a wiser and fuller induction from a wider basis of the facts, say, of economic behaviour, than was available for the first inductive process.

Applying this method, in its completeness, I have investigated economic behaviour in the following manner :

(1) An inductive study—

(a) Of general economic behaviour in business—

(b) Of the personal psychology of an individual Value, and of the massed psychology of the group Values called Demand—

tending to establish both the Psychological Theory of Value and the Multiple Theory of Value as being one and the same theory of a great social fact, which is always taking new forms.

The next step is to proceed to :

(2) The historico-inductive method, showing that both—

(a) The gradual growth of the Demand or Psychological Theory of Value—and

(b) The tendency, both in the Cost of Production and in the Demand Theories of Value, towards a multiple explanation of Value—

will coincide and prove by admission on the part of their chief supporters that no theory, which posited Exchange Value as a single psychological phenomenon, would suffice to cover all the facts presented in the study of economic behaviour.

(3) The deductive re-application of the Psychological Theory of Value to modern life, including—

(a) A sketch of Economic Progress—

(b) An analysis of the four factors of Production.

It is evident that the latter part of this book would be overloaded if all this task were ever attempted. Nor is it quite undesirable that a more complete application of the third method should be postponed until criticism has established, or corrected, the results already obtained by the first method. As to the proper exposition of the second method, frankly, I have not time or space in the present volume to develop it as it should be treated. This seems to be also a part of the work in which supporters and critics might both fairly share in the future. There is ample material in the history of Economic Thought, from the Physiocrats to the Austrians and the new American school, to furnish material for several books of criticism and exposition of the new Theory of Value, which no one has attempted since William Smart published his brilliant study thirty years ago.

Section 1.—THE INDUCTIVE STUDY

(a) General economic behaviour confirms the belief expressed that moral issues almost entirely dominate economic effort. The broad continuous path in a moral direction is clear and undeviating. Little tracks that wander away mostly come surreptitiously back, and a few, a very few, lose themselves in unfruitful effort. Intellectual control in economic issues makes itself busy and conspicuous with little actual influence.

(b) The personal psychological behaviour of individuals in economic matters proves how little they follow any intellectual guidance in business. It is thus fatuous to maintain the hypothesis that personal interest, a matter of calculation, is the prime mover in economic conduct. Men value things by instinct, and pursue them by instinct. Their conceptions of welfare, pleasure, and happiness, which guide their Values are created and controlled by instinct, and the instinctive

origin of the latter is multiplied by the peculiar gregarious power of instincts in the mass.

Section 2.—THE HISTORICO-INDUCTIVE METHOD.

The term "historico-inductive" is itself an equivocal expression. If interpreted in the way for which the term "historic method" is most generally used, it would mean a series of inductions from, and over, successive analyses of historic facts—such as, for instance, is sketched in Chapter I, which follows—whose aim would be to present the history of economic behaviour as itself the history of one continuous fact. That is not the present meaning, as I use the word. I should like to be able to present an induction from the history of the Theory of Value showing that the theory itself had to change under successive presentations of contemporaneous economic facts, because the changes in the facts themselves, as well as in the presentation of them, necessitated equivalent changes of theory to follow. The task is no light one, as it would involve no mean re-writing of the History of Economic Theory, solely from the point of view of Psychological Value. It must be postponed for some future occasion, when I trust to have leisure to do it. I merely offer an indication, some of which has already appeared in Part I, that there is here a field for a considerable study in itself.

This distinction of methods is not an empty one. The "historic method" proper is not adaptable to Political Economy except in a very minor degree. There is not, strictly speaking, any Economic History. History is a record of facts, and chiefly of human relations, absolutely and without qualifications. History may contain analysis of economic situations and the record of economic phases. But economic relations are not continuous nor absolute in their nature. They are conditional, more than any other form of human relationship, on the political situation of their date and time. Some form of them preceded history, and some form of them will perhaps outlast it.

The distinction, which I drew earlier in the book, between Economics and Political Economy gives the key to this peculiarity. Political Economy depends on some degree of external force, by no means stable in any period of history, which makes certain political conditions permanent. When stability is withdrawn, the conditions are inevitably varied, and economic life disappears or alters its character.

So do the great features of Political Economy vary with political conditions. The belief in a Divine omnipotence or occasional interference alters all economic relations. The slavery or freedom, or dominance of labour are three varying conditions. The political power attached to land is an ever-varying condition. The functions exercised by owners of capital is a varying circumstance of fundamental importance. The association of economic risk, now with one factor in industry and again with another, is a varying condition. The function of the State in controlling Values by the law of contract, declaring some to be immoral, some inadvisable, some criminal, is a varying condition. The part played by private and State insurance in advanced communities is a varying condition. The law of inheritance is a varying condition.

In short, the history of varying economic situations presents one field of study, and the history of the theories of economic behaviour under a given system of reasonable stability is quite another. The two subjects can hardly be included under one heading, and, in fact, they are not of the same nature. The existence of conditions so complex offers a ground for saying that the true "historic method" is only partially applicable to economic subjects and especially to economic behaviour. With this apology I pass on to consider the particular form of argument which I have called, rather lamely, the historico-inductive method.

(a) The first feature of economic theory is the gradual, very gradual, recognition of the supremacy of Demand in the Theory of Value.

Mention has been made before of Bailey's Theory of Value,

of which Jevons was so singularly ignorant. The soundness of his views did not, however, pass unnoticed by one great man. Malthus, whose definition of rent will very well hold its own at the present day, and who undoubtedly shares, with Anderson, West and Ricardo, the credit for the elaborate doctrine of rent associated chiefly with the name of the latter, himself defined Value, in his pamphlet of 1827, as the estimation in which a commodity is held at a given time and place, "determined, in all cases, by the state of the supply compared with the demand, and ordinarily by the elementary costs of production, which regulate that state." The reader will note that this is already a double-barrelled definition. The dual definition is further extended in his "Principles" (2nd Edition, 1836), where he recognises three sorts of Value—"Value in use"—"General power of purchasing," and "the estimation in which a commodity is held, founded on the desire to possess and the difficulty of obtaining possession of it." He particularly commends Bailey's theory, and thereby places himself on a level with him as one of the discoverers of the origin of the Demand Theory of Value. The two together may be said to have anticipated by half a century, the better known Utility Theory of Gossen, Jevons and Menger.

Certainly the man who most conspicuously emphasised the modern views of the supremacy of the market in governing production was William Thompson, the Socialist landowner of Cork (1824). The sole credit of discovering whatever of importance is to be found in the fashionable, but confused, Theory of Underconsumption, rests with him. He has a right also to share with Bailey the credit of being one of the two most unjustly underrated men in the English school of economic writers.

Thompson* correctly develops the excruciating difficulties of modern Supply and Demand. Is abundance of output compatible with equality of the distribution of Wealth? He answers the question in his own way. Of all the causes which

* Beer's "British Socialism," pp. 218-227.

operate on human happiness, none is as potent as the distribution of Wealth. Considering the fertility of the new productive powers of the world, there need be no hesitation in undertaking a juster and more equitable distribution of Wealth . . . The amount of accumulated Wealth is insignificant compared with the possibilities of the creation of new wealth, under circumstances by which its more equal distribution could be contrived. He concludes that, with education, workmen will discover that all their methods are inadequate to secure them the full produce of their labour.

Thompson's modern ideas concentrated themselves on want of employment as the great evil. And what, he asked, was the cause of want of employment? Quite simply, the want of sale or a market. Goods cannot be sold to repay cost of production. The remedy was to find the unfailing market. We still seek it.

Some way after Thompson comes Karl Marx, who reaches the same conclusion unwillingly enough: "We see, then, that that which determines the magnitude of the Value of any article is the amount of labour socially necessary, or the labour-time socially necessary, for its production."* Social necessity is, of course, Demand under another name, though the Demand is not necessarily free economic Demand, as it may be the compulsory Demand of the State. Still, as a statement of the source of Value, it was superior in accuracy to the analysis of Value by the contemporary English school (1864).

To return to another Englishman, not a Socialist, to whom Professor Haney wishes to concede the credit of first clearly explaining Value in terms of Marginal Utility, W. F. Lloyd, in a Lecture on the Notion of Value (1864), says that, "in its ultimate sense, Value undoubtedly signifies a feeling of mind which shows itself always at the margin of separation between satisfied and unsatisfied wants." Here it is the limitation which is unfortunate in destroying the whole sense of the pas-

* "Capital" (English translation), vol. i., p. 6.

sage. Obviously, Value does not signify a feeling of the mind only at the margin, etc., etc. Feelings of the mind are stronger with unsatisfied wants. The cause of their being unsatisfied has nothing to do with Value, but is due to a different and opposing set of circumstances, of which the seller's wants are the determining factor. Still, after Bailey, Lloyd has some credit due to him. So, too, the German economist, Thomas (1841), develops the subjective theory of Value: Value depends on estimation, and for estimation there must be not only an object, but a subject, who evaluates. This is a great advance on Lloyd.

The year 1870 is, of course, the critical date in modern Political Economy, when both in England and Germany the new Demand Theory of Value was simultaneously born. Since that time the development has been continuous, until the simpler forms of the Demand Theory lost themselves in the morass of Marginal Utility.

This was a most unfortunate innovation, for which any one can assume the credit who likes. It perhaps originated in Jevons' invention of the phrase, "Final Utility," a conception very fruitful in connection with Value, as indicating a point of satisfaction of Value, where Value finally stopped. This was a highly significant point in the descending scale of desire, because Value, being subjective, the determination of Value by satiety was a crisis arising from the nature of Value itself. When Final Value was changed into Marginal Value, it rapidly passed into use in reference to the meeting point of Demand and Supply, or Value and Price, on the ascending, as well as on the descending, scale of Prices. Now, in the Psychological Theory of Value, the automatic and self-determining cessation of Value on a falling market is a psychological fact and comes therefore within the theory. But the rising of Price does not make Value cease; it merely makes it inefficient. The psychological circumstances of the two cases are wholly different, yet the term "Marginal Utility" is used indiscriminately to describe the critical meeting point of Supply and Demand in

either case. To import any meaning into the term "Marginal Utility," it should be used only with falling Price and shrinking Desire. With rising Price and failing Effort a separate term is required, which should obviously be "Marginal Sacrifice."

Nor is there only one absurdity connected with the unfortunate term. Professor Clay has pointed out another confusion between the margin, which is the result of competition, such as "the margin of cultivation," or "the margin of production" with "the marginal purchase." The first is merely a picturesque metaphor, while the second is an individual psychological fact.

Even among the psychological facts there is an immense difference between the single psychology of the poor woman who wants two pounds of tea a week, but not three, as her purse can only buy a week's supply, and the psychological Final Utility of tea for the tea market, whose absorption of only two-thirds of an abundant year's crop at last year's price is limited by the cost of borrowing capital from a money market whose supplies may have been drained by the high prevailing price of cotton. The poor woman will not buy the third pound of tea; the tea market will take the last one-third of the year's crop at a price to be determined by the respective capital resources of the buying tea merchants and the selling tea planters.

Professor Loria is, perhaps, the hardest critic of Marginal Utility. He condemns it as an unfruitful concept in itself, because it is an endeavour to combine, in one term, two ideas which are essentially incompatible, *e.g.*, Utility, which is a quality of an object, and Scarcity, which is an external circumstance.

Professor Cassel's criticism is milder and quite conclusive. "The so-called Marginal Utility, if we employ the idea at all, is just as much an unknown factor of determining Values and Prices as Price itself, wherefore it is obviously ridiculous to rely upon its use as a means of elucidating the question."

How dangerous it is to play about with the term "Utility" at all is best shown by asking, What is the use of the word, if it is not a quality? Jevons says clearly, "That Utility is not an intrinsic quality." Then what kind of quality is it? If it is a fugitive quality, it seems that the characteristic of a fugitive quality, which makes it fugitive, is more interesting than any other characteristic about it. The interest is entirely divorced from the object in this connection and remains with the subject.

Take, again, Jevons' statement "That the degree of Final Utility varies with the quantity of commodities, and ultimately decreases as the quantity increases." Admitting the circumstance to be as stated, it is a natural inference that a proportional relation between these increases of quantity and decreases of Final Utility is the only fact that would give any interest to the statement. We all know that there is no proportional relation. We also know that the relations of increase and decrease are very different in the psychology of an individual and of a group of people.

With the poor woman above, her weekly demand for tea breaks with a snap after two pounds; whereas the annual demand for tea of a group of merchants does not break at two-thirds of a bumper crop, but merely becomes stagnant. The psychology of an individual is no sure guide to the psychology of a group.

Perhaps it is legitimate here to mention also that, in the above statement of Jevons as to the breaking power of Demand at the point of Final Utility, he makes no mention of the vital question of time rate. In individual psychology the time rate of saturation is, of course, of considerable importance, as one can find out by feeding a boy with sweets. But that can be got over by supplying the boy with a box to hold the chocolates. With a composite market the time rate of Supply is much more critical. The wholesale market can take a quantity of extra tea at fair prices, if it is fed into the market in small lots. If Supply is uncontrolled, and comes with a rush,

the break in Prices will be severe, owing to the sudden disappearance of Values.

The fallacies of an extended use of the Marginal Theory consist in arguing from the particular to the general without allowing for the essential differences imported by numbers, and, further, in transposing inferences from the psychology of a satiated person to the case of the psychology of one whose desires remain active but whose powers of effort are exhausted. The true parallel holds good in neither case.

Leaving the Marginal Utility aberration aside, the history of the Demand Theory of Value follows a broad and well-known course until it debouches, quite naturally, into the true Psychological Theory of Value, which many economists have adumbrated. It is more interesting, perhaps, to turn to the less well-established tenets of the Multiple Theory of Value.

(b) The tendency to a multiple explanation of Value is inevitable in all Theories of Value.

The multiple explanation of Value began, of course, with Aristotle's distinction between Value in Use and Value in Exchange, which is not quite sound. The Value in use may not be a Value at all, if no effort is required to increase the Supply. One pail full of water is useful, even at the top of the well, but the Value of any particular pailful is represented only by the effort of drawing another. It is, however, the embryo, showing the uneasy conviction in the mind of the thinker, that there was more than one Value attachable to any object. Compare also Pufendorf, with his *pretium vulgare* (Value in Use) and *pretium eminens* (Value in Exchange).

Possibly Petty may have been the first to oppose the idea of Natural Value to the mediæval idea of a Just Price, which is obviously theological in character. Hobbes also continued the idea in his mention of Just Value. Petty's conception was also metaphysical, because he speaks of "natural dearthness or cheapness" as depending on the number of "hands" engaged in production. Natural, or intrinsic, Value was denied by

Locke, but Adam Smith returned to it. "When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price." On the other hand, he says that "the actual price at which any commodity is commonly sold is called its market price," which, he goes on to say, "is regulated by the proportion between the quantity which is actually brought to market and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour and profit, which must be paid in order to bring it thither."

In commenting on this, and other similar passages, I am not turning aside to discuss the intellectual case for the Labour, or Cost of Production, Theories of Value. In my opinion, there never was a theoretical case. The argument for some Natural Value or Natural Price, which was to reward a man justly for his sacrifices, was remoter and far stronger. It depended on subconscious ideas of justice.

I am concerned here only to point out that all those who defended Natural Values or Prices were compelled by logical necessity to bring forward other Values or Prices, under other names, to account for the obvious, but cruel, fact that Exchange Value was not always, what, from the producer's point of view, constituted a fair return. The most modern version of it is given by Dr. Hadley: "A Value is an estimate of what a Price ought to be."

Naturally enough, with his experience of fluctuating prices on the Stock Exchange, Ricardo was, of all economists, the most nimble in his explanations of Value. I must follow his words with some care. He began by a dangerous, but gallant, attempt to extend Adam Smith's theory of the labour-content of Value from the primitive state of society, where Smith developed it, to more modern conditions, even after land had been appropriated and capital applied to industry. But he is

careful to state that this doctrine applied only to the relative,* and not to the absolute, Value of commodities. He does not, however, elaborate the distinction.

His chief point is, that while rent is negligible as a determinant of Value, and profits, by a law which is really metaphysical in character, always tend to an equality in all businesses, labour remains the great regulator of relative Value. "Economy in the use of labour never fails to reduce the relative value of a commodity." †

Another difficulty at once confronts him as to the Value of labour, which is otherwise the determinant of relative Value. "Wages are to be estimated by their real value, viz., by the quantity of labour and capital employed in producing them, and not by their nominal value, either in coats, hats, money, or corn." ‡ This distinction is again not elaborated.

When pressed hard, in his correspondence with Malthus, he justifies, or explains, his differences as to Value by saying: "You have always in your mind the immediate and temporary effects of particular changes, whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them." ||

Later, in the "Principles," he returns to Adam Smith's remark quoted above, that "we must not be supposed to deny the accidental and temporary deviations of the actual or market price of commodities from this, their primary and natural price." §

Taking all these passages together, we find Ricardo following Adam Smith in distinguishing between actual, or market, and primary, or natural, prices under circumstances where Price is not really distinguishable from Value. He further points out unexplained distinctions between relative and

* "Principles," p. 13.

† "Principles," p. 19.

‡ "Principles," p. 44.

|| "Letters to Malthus," p. 127.

§ "Principles," p. 78.

absolute Values and real and nominal Values. Could any one be said to have got himself into a worse tangle, if the saving fact did not remain behind that there are, and always have been, more than one Value and more than one Price for any conceivable article that has ever been offered for sale? It is a tacit admission, by the leader of the older school of economists, that the Psychological Theory of Value, in its form as a Multiple Theory of Value, is true.

On the same point J. S. Mill has less than his usual vagueness in dealing with Value. He states that, "besides their temporary value, things have also a permanent, or, as it may be called, a Natural Value, to which the market value, after every variation, always tends to return." * Since he continues that the natural Value may be a scarcity, or monopoly Value, it is evident that the idea of confining Value to a single idea has not been attempted or has been given up.

Professor Loria, in commenting on Marx's curious attempts to define "socially necessary labour" and "Value commensurate with labour," employs a phrase which is remarkably parallel with the meaning of Ricardo's sentence in his letter to Malthus quoted above. The theory expressed is rather different, but the spirit is substantially the same. "It may well be that value, as determined by abstract economic theory, will not always correspond precisely with value as a concrete fact, for the complexities and the manifold vicissitudes of real life impose obstacles; it may well be, indeed, that to the rigidity of normal value, constituting the type of the relationship of exchange, we ought to counterpose the comparatively transient fluctuations of current value." † Here, as with Adam Smith and Ricardo, we have the same contrast between the stable and unstable, the permanent and transient, which is the sure key to traces of metaphysical origin.

Professor Loria finds no comforting reassurance from his subject's elucidation of Surplus Value. With the best will in

* "Principles," Book III., c. vi., sec. 1.

† "Karl Marx," p. 77.

the world to praise Karl Marx, he can only conclude his study of this famous attempt as follows : " Value commensurate to labour, value as defined by Marx's theory, is not logically capable of realisation—it is not merely an abstraction remote from reality, but is incompatible with reality—it is a logical impossibility."

When we pass to the theories of the later Demand School, the contention in favour of an admitted plurality of Values finds an easy task. The supporters of the Subjective origin of Value did not deny the existence of Objective Value, but they identified it with Exchange Value and, therefore, with Price.

Jevons, whose intellect had the naturally practical and objective colour of the English character, never let his idea of Value wander far from that of Price ; in fact, he decisively dismissed the use of the term " Value " altogether, substituting for it the term " Ratio of Exchange." * This was only after having given the term " Value " at least three meanings : (1) Total Utility, (2) Final Utility, and (3) Ratio of Exchange. He never got to see that the Ratio of Exchange was itself the ratio of exchange between two other ratios, the other ratios being themselves each a ratio between a pair of Values. However, it is clear that, before dismissing Value, he had to admit the existence of three kinds of Value.

Karl Menger, the Austrian contemporary of Jevons, had no such tie to old ideas, and in his theory objective ideas go altogether in the background behind subjective considerations. He began the splitting up of Value into outer-exchange Value and inner-exchange Value. Wieser continued the same analysis with deeper elaboration. He is chiefly responsible for the leading idea of the Austrian School, that Value resides altogether in an operation of the mind, which is transferred by an effort to the goods which are in question. In the Austrian view, Value is attached to the goods by an Agent.

It was Böhm-Bawerk who continued to expand the notion of plural Subjective Values until, within a certain range of

* " Theory of Political Economy," p. 81.

imagined Utility of an object to a subject, Values could be indefinitely multiplied. He distinguished two classes of Subjective Values ; Subjective Use Value and Subjective Exchange Value, of which the second was a distinct novelty. It represented to the possessor of an object a kind of varying auctioneer's valuation of an object—as if a man would enjoy the pleasure-value of a Millais on his wall until he thought he could buy two motor-cars with it, when it would have to go to the hammer.

Böhm-Bawerk's multiplication of Values was very acute until he came to exchange, when his analysis was limited by the smallness of the operations which he used as illustrations. He lacked the breadth of view of Menger, who estimated life as a whole, of which Values formed a part, while the former apparently regarded life as built up in detail by Values. The tenuity of his conclusions has prevented justice being done to the acuteness of his originality of research among Subjective Values.

The tendency of the American followers of the Austrians has been to regroup Values solidly once more, but this time as a collective, and not as an individual, whole. A tendency the other way, among recent writers, is shown by Mr. C. M. Walsh, who recurs to the old divisions, and very neatly sums them up under four headings : use-value, esteem-value, cost-value, exchange-value. It is not for me to criticise these meanings, or to try to bring them all into line where they do not stand at present. It is sufficient for me to call attention to the renewed assertion, by a learned and able writer, of the multiplicity of Value.

May I conclude that, apart from the validity of my own logical exposition of the Psychological Theory of Value with the corollary of its multiple nature, I am entitled to cite as corroborative evidence of the justness of my main contention this very remarkable fact ? Hardly any serious writer on Value of any school, ancient or modern, has succeeded in bringing this fundamental concept of our economic life under a single

idea. They have invariably prepared for themselves a way of escape from this singularity, of which they stand in awe. To cite the defined and undefined, or partially defined, terms employed, few of which exactly overlap, constitutes in itself an argument. Use, exchange; intrinsic, extrinsic; labour, cost, surplus, socially necessary, commensurate to labour; just, natural; normal, current; absolute, relative; real, nominal; subjective, objective; inner, outer; demand, esteem, market and social values. They mostly go in pairs, but there is no sole trenchant and recognised duality.

Let me give a very different list of Values taken from economic behaviour, most of which represent to a business man some slight shade of practical variation from one another: insurance value; replacement value; rateable value; taxable value; probate value; break-up value; capitalisation of annual value; value under a forced sale; value as a going concern; value as between a willing buyer and willing seller; reserve value at auction.

Section 3.—THE DEDUCTIVE RE-APPLICATION OF THE PSYCHOLOGICAL THEORY OF VALUE

As the first section is only a brief recapitulation of the first part of this book, so the present section is nothing but a foreword to a few meagre chapters devoted to a third method of proof in the first place and a review of current problems in the second.

These few chapters are a relic of large plans which cannot be carried out at present. I hope to devote more time to the task later on, and, meanwhile, to add much more considerably to the stock of material necessary for its proper treatment. As I am writing during the course of the General Election in Great Britain and Northern Ireland, at the end of the year 1923, I note that the material is growing visibly under my hand.

The first chapter deals very briefly with the application of the idea of transience and transition to all economic situations in the past, which, in my opinion, has first of all prevented the

growth of economic theory in any connected fashion until early in the last century, and, secondly, has already made less true, and largely untrue, generalisations, which were valuable in their own time.

The importance of rent, for instance, has gone into the background as compared with its overwhelming political and social interest in England during the Napoleonic Wars.

Again, the position of Capital is not only differently estimated at the present day from what it appeared to be in 1776 and 1817, but its actual functions, relative to the commonwealth have altered. The historical discussion of the first chapter thus leads me on, naturally, to consider the validity and utility of the four factors in production, and, particularly, to analyse their aristocratic and democratic characters under the light of the Psychological Theory of Value.

CHAPTER I

THE STAGES OF ECONOMIC PROGRESS

A theory which proposes to explain the *idea* in business life must, of all things, not be above its business.—FRIEDRICH VON WIESER : *Natürlicher Werth*.

THESE words, of the renowned professor of Prague, may well be chosen as a starting-point for the present study of economic behaviour in its transitional form. Philosophy, to come to the aid of economics, must be eclectic and, perhaps, pedestrian ; history must be selective, pernickety, interpretative, and prepared for endless repetitions. The motives and the Values vary while the same acts are repeated for generations ; so, too, different policies and practices flow steadily from impulses continuously the same.

Political passion may bring alternations of order and disorder, or cycles of monarchies, aristocracies, democracies, and anarchies. The economic facts do not follow them in parallel fashion. The waves of loyalty and rebellion do not alter economic motive. Only the broad facts of order and anarchy posit and remove the external conditions of Value.

During centuries of sound government, on the other hand, carried on under unchanging conditions, men may save and spend money and wealth ; led by motives, which have altered imperceptibly, until, at the end, their operation is wholly different from what it was at the beginning. That is, perhaps, why I feel permitted to say that economic history is not history in the usual political sense. It is not continuous nor consecutive in the same sense as the recurrence of war and peace, the rise and fall of dynasties and civilisations, or the evolution of political institutions.

Think of the political contrast between a Greek slave-maintained democracy like Athens and the Swiss Republic, of the Achæan League and the United States of America, of the Babylonian and British Empires. Yet property in land, the borrowing and lending of money, the sale of food and clothing, have been the basic features of economic life in all of them.

On the other hand, as I shall show, the institution of Capital has fundamentally changed in the same country, under the same monarchy and a very slightly altered parliamentary system within so short a period as from the date of Adam Smith's birth to our own. As Thorold Rogers taught us, we must read our own economic interpretation into history and not treat it as a ready-made record of economic events. Already in some ways, not very many, we now lie more side by side with the days of Nazareth than with those of the Industrial Revolution. To some extent the laws of Kansas, or Georgia, are assimilated to the Mosaic decalogue, while the rules of Wall Street more resemble the practice of Acadia than of Arcadia. The spirit has no bounds of time. Both its bad and its good qualities are durable and very nearly permanent.

Considering the enormous changes of economic organisation within 2,100 years, hardly any historic parallel is more striking than that between the successful attempt to rehabilitate the commercial and mercantile prosperity of Rhodes after the earthquake of B.C. 227 and the present movement to restore the economic independence of Germany in the Autumn of 1923. Undoubtedly, if Germany's misfortunes had been caused by natural causes instead of her own overwhelming arrogance and defeat, the efforts to set her once again on her feet would be immediately successful. In each case, although the predominating rôle of Germany in Central Europe is not equal to the commanding and central position of Rhodes in the Hellenistic world, there is the same desire among the leading commercial nations to renew, as soon as possible, the vitality of an important lost link in the economic unity of a larger area.

On the other hand, by way of clean cut contrast, there are few, or no, parallels in political life to the grandeur and universal influence of the economic effects of the suppression of slavery and the slave trade, the introduction of factory legislation, now universal, or the invention of limited liability companies. The physical improvements in communication and transport are in a class apart. It may well be that the demonetisation of silver in 1870-3 may be only the first step in a still vaster change of habit.

Economic history, if we are to use the term at all, is not episodic, but psychological. There are unmistakable movements of progress in economic organisation, but none of them begin or end at any precise period, since their influence remains, as it were, spiritually or the reverse, long after the institutions which enshrine them are dead. Other economic influences and innovations throw out feelers and tentative efforts long before they come to be widely adopted in principle, as, for instance, in the case of socialistic regulation, or corporate and representative ownership.

As a suggestion for future studies, to be undertaken by myself, if possible, some day, I have hypothetically formulated six or, perhaps, seven stages of growth discoverable in the stream of economic events and of economic psychology.

Of these, even the earliest is not yet dead, and the youngest is only foreshadowed. We are still in the midst of the powerful influence of at least three. The names themselves I do not propose as being altogether satisfactory, but the psychological validity that guides and characterises each wave of tendency clearly separates it from those which at least precede or follow it.

The first movement, or empire of economic thought, may reasonably be called theocracy ; although the earliest economic impulses, which it originated and afterwards controlled, very probably preceded any specific idea of God or many gods. The observance of times and seasons for sowing and reaping, for the chasing of migrating game, for voyages and military

expeditions, was quite likely to antedate any conception of supernatural control of natural forces. For this early stage we have much historic material, but none superior to that in the history of the Jews. But, although we know many of their legal provisions, we are often unaware to what extent the more startling of them, such as the jubilee year and the forgiveness of debts, were ever effectively carried out. From the surprise manifested by Josiah on the discovery of the book of the law by Hilkiah and Shaphan, the acknowledged code seems to have remained very much a dead letter for long periods together.

In fact, we may read into this picturesque story an actual illustration of the slow process by which Divine law was modified into custom and crystallised into caste, so that the original codes were neglected as unnecessary and came to be forgotten. For, while the Israelites and Judah were still under the nominal dominion of the Mosaic theocracy, no doubt their Assyrian and Babylonian neighbours were living on the traditions of an older Sumerian and Acadian system of very different Divine ordinances, whose dim origin had long been forgotten. Professor Petrie tells us that what little of the latter now survives, such as the duodecimal system of time for the months and hours and minutes, retains traces of an ingenuity and complication of organised economic life beyond that of our own beginnings. At any rate, their preserved clay tablets prove the existence of that notable instrument of civilisation, the promissory note, used most probably for the same purposes as our present accommodation bills and bills of exchange.

The noted talents of the Western Orientals for finance is, no doubt, an inheritance of the early development of Sumerian skill. The Jews acquired their chrematistic experience after the Babylonian exile, and possibly drew from the same source their peculiar fame for powers of exorcism throughout the Hellenistic world. After the decay of Sumeria, Assyria, and Babylon, the Jews seem to have been almost the sole bridge from them to the later Greek economic system. We have an

interesting sidelight on their banking organisation in the books of the Maccabees, when the officer of Antiochus was sent, in the time of John Hyrcanus, to seize the gold reserve at the temple of Jerusalem, whereat there was sore lamentation throughout the whole city.

The Greeks, with their high intelligence, were the great destroyers of custom. But, before passing on to the third stage of progress, let us note in what remarkable fashion traces of the two earlier stages have persisted into our civilisation.

There is one long line of descent through which theocracy has come down into the most modern economic movements—the Mosaic Code. It has two chief characteristics : (1) a direct evolutionary tendency ; the destruction of the ungodly by penal, political, and social pressure, which has especially commended itself to the vigorous Nordic races ; and (2) the direct intervention of moral ordinances across, and in spite of, economic habit. It is most remarkable to observe the renewed immortality of the puritan and persecuting spirit after successive submergences under the waves of civilisation. After being revived under Samuel and Josiah, and in the times of the Maccabees, it accomplished itself in the death of Jesus and seemed to perish under Christianity. But the Pauline modifications of Judaism kept it alive in Christianity until the invention of printing brought the more ancient Jewish texts into popular hands.

While the more venerable fanaticism of the mediæval Church, allied with imperial theories of power, sullied itself with inquisitions and persecutions, no single act stands out in history as so closely parallel to the judicial murder of Jesus as the burning of Servetus. That was the typical act of theocratic Puritanism of which Calvinism was only a form. Its persistence in our day is predominantly economic, and has effected wonders of humanitarianism in abolishing slavery and the white-slave traffic, curbing economic tyrannies of the weak and helpless, protecting lunatics and prisoners, and thwarting the ruthless exploitation of defenceless lower races.

In prohibition, and in subtle social taboos, there still appear traces of the malignity of the old persecutors, who, like Bunyan's Giant Pope, sit, with their teeth drawn, mowing, and frowning at unintelligible pleasures and hating intellectual and artistic accomplishment.

The virtues, however, of a more honourable form of strenuousness, engendered by the Mosaic code, give it a high survival value and great economic dominance in the progressive, commercially organised, races.

Evolutionary Puritanism has not found favour with democracy as a social spirit, but it exercises the functions of an aristocracy by taking up successively new social and economic programmes, which popular leaders find it useful to accept without subscribing to them too heartily. It will be interesting to observe at what point the alliance of aristocratic Puritanism, and its strong female following, with the socialist parties of various shades, will break down. It is strongly founded on property, and can have no permanent dealings with communistic schemes of redistribution.

We seem to be very near the time when this peculiar Anglo-Saxon Puritan-plutocrat-aristocracy will no longer find its Mosaic traditions and strength of will compensate for its paucity of numbers and its parsimony of intelligence.

The theocratic power of the mediæval Church was functionally apparent in economic behaviour, chiefly in its almost successful prohibition of usury among Christians for a thousand years. True, this nominal restriction of a fundamental necessity of business, was only possible, firstly, because the commercial legal system, except in its elaborate combination of land tenure with war service, was almost negligible, and, secondly, because the Jews everywhere monopolised the credit functions forbidden to the Christians. The restriction of credit machinery was broken down at home by legal fictions, and in foreign trade by the Bill of Exchange, which, invented in Lombardy and introduced into English foreign trade about 1328, did not become a domestic commercial

trade instrument until the time of Charles II., long after the Reformation.

It is almost unnecessary to bring forward reminders of the still prevalent power of the second, or customary, stage of progress which so long overlapped the theocratic system. In feudal land tenure it dominated Europe until the French Revolution, and many parts of it much later. It survives in all legal business with us, and somewhat fragmentarily even in America. It controlled wages in England until the Black Death, and peasant services in Germany until the Peasants' War and, later, Vom Stein's reforms. We take from it still the important system of paying for professional services, clergymen, teachers, doctors and lawyers, which in no civilised country are regulated on an entirely commercial basis of supply and demand. Curiously enough, through the institution of the "Panel System" for doctors in this country, the customary payment of fees has survived to, and joined hands with, the ultra-modern State Insurance System, without passing, like all else except professional service, through the intermediate competitive sieve.*

The psychological basis of the first two stages of economic progress was similar; the repression of mass feelings; the dominance of the selected individual and his descendants; the preparation for putting all economic machinery instantaneously into commission in a fighting form; the suppression or severe limitation of competitive impulses; the linking up of all institutions of Church and State against popular forces. It is a commonplace that democracies in Greece were not popular institutions. The morality of Socrates and Jesus was condemned because it weakened the civil power and might have combined the multitude. All the forces of the different spirits

* Perhaps the most curious personal experience to me of this co-existence of mediæval and modern systems in a progressive country was in Berlin before the Great War, where I found the Italian Renaissance method of accounting still in vogue in up-to-date business; and company law composed in equal parts of Prussian red tape and ultra-modern American ideas.

of dominance were allied to prevent the massing together of the submissive elements in self defence.

The spirit of the third stage of progress was freedom, and its characteristic in economic behaviour was competition. It broke out, first, while times were still hard, when General Values had been notably exalted by famine and pestilence, so that the poorest class of all was encouraged to claim a larger share through increased wages of the universal inheritance of fixed wealth.

The movement received a vast impetus through the flood of gold and silver from the new world, suddenly depreciating money and altering values, so that the owners of small, fixed customary wealth were immediately ruined or impoverished. The energy * developed by this barefooted, high-blooded, and bare-bladed aristocracy, constituted a surprising addition to the sum of potential competitive forces. We may come to see the same phenomenon from Central Europe after the Great War.

True competition hardly became the prevailing system of the modern commercial world until the middle of the nineteenth century, and in some countries it is still only fully developed in the mercantile class. It left free play to the individual instincts when, at once, all those energies which centre round the life of the family began to take, at first, a defensive and then an aggressive attitude. It was during this era, now probably a little past the height of its fullest development, that the Moral Element of Value began to obtain its supremacy, at first by using free competition, but, in its later career, by resisting it. Individualism gradually broke down because it asserted too forcibly the instinct of accomplishment, breeding haughtiness, and luxury, and irresponsible power. At once the subtler family forces subconsciously combined to limit it.

We are now living in the superposed psychological economic

* *Vide* Michelet on the Huguenot movement; also Goethe, "Götz von Berlichingen."

stages of competition and combination, and the difference between them is probably, at the long last, only the result of a true social progressive development, such as that between the theocratic and customary stages of progress. The over assertion of the single self produced reaction and combination ; first, among groups of the less strong against the very strong ; next, of the weak against the strong ; lastly, of superlatively large groups against smaller groups or individuals. It cannot be denied that the tacit understanding between certain groups of the strong, such as the landed interest in the eighteenth century, a combination that had no original justification of economic self defence, was directed very much in the sense of oppression against all and sundry of its neighbours.

Meanwhile there grew up a strange psychological habit, a form of competition of which combination was also a feature. It is under the prevalence of this habit that we now live at present. It consists in one or several groups of one of the great partners of production, eliminating for the time being their assistance from the joint work in order to determine the special value of their own contribution, and to assert their claim to a larger share of the general product of industry.

It is arguable, therefore, that, although we undoubtedly live in the times of competition, such as Free Trade ; in the times of combination, such as monopolies and trade unions ; yet the characteristic feature of the early twentieth century is elimination, as in withdrawal of property from market, lock-outs, and strikes. Competition and combination are passing away and elimination is the chief feature of our era.

The Landlords began it. If we read the first statement of the theory of rent, by Anderson, it is plain that the critical feature of rent at that time, which distinguished it from other partial monopolies, was the power of withdrawal of any single unit of land from cultivation, unless, and until, the exact share of the increment of produce from that particular unit, over and above the produce obtainable from a similar unit of ordinary land, just worth cultivating, should be handed over to the

landlord. Owing to the virtual monopoly of land, under protection and during war, this kind of bargain was feasible, and was carried out by the tacit combination of landowners, aided by the trained body of lawyers and land agents. It was very well done. But it was a dreadful lesson to teach, first to Capital and then to Democracy.

Capital was not slow in learning the lesson. Every form of natural and partial monopoly came under the same law of rent or quasi-rent. The exaction of all forms of quasi-rent is due to the power of withdrawal of co-operation or, in one word, elimination. Chiefly the weapon was used against Labour. Population was encouraged in order to keep down wages. Unemployment was threatened. It came to be called "the needle."

Power has passed from Land and Capital. Separate bargains can still be made by a few individuals, but combination among the middle class, as a whole, is rendered less easy. On the other hand, the bargaining power of groups of workmen has been immensely increased, both by organisation and by legislation.

The wide franchise of modern times has been used to obtain unemployment pay to a limited, but considerable, extent. The economic effect of unemployment pay is twofold; the sums are reckoned, not incorrectly, as payment for a reserve of Labour; they are, no less, a subsidy, drawn partly from the employer and from the State, to assist in the elimination of Labour from industry until such time as the bargain can be struck by Labour as to remuneration in the sense most favourable to itself. So, too, are the rates used.

Let me recapitulate the stages of economic progress as we have them. We have, first, theocracy and custom, during which, nominally, the moral principle prevailed. When the moral principle, in its crude caste form, became unjust to large masses of people, we had an outbreak towards freedom with a return to limitations; these stages are competition, combination, and elimination; and, just at present, we have

them all miserably together. They are the product of the combative instincts run to riot.

We must look forward, with some courage and confidence, to the emergence of a principle of justice, before civilisation collapses everywhere, as it has already done in some places.

There has been one serious attempt made in economic literature to evolve such a principle of justice: by the great Austrians, Anton and Karl Menger, and Professor von Wieser. Anton Menger's painstaking book on "The Right to the whole Product of Labour," with its admirable preface by Professor Foxwell, which laid the foundation for the study, is already out of print in its English form. Karl Menger's work is largely drawn upon in Wieser's book "Natural Value." * To these latter two writers we owe the idea of Elimination, theoretically considered, as a determinant of Value, and to the latter, especially, the important doctrine of *Zurechnung*, Imputation.

Imputation, a process of thought, of which we are only at the beginning, represents the sixth stage of progress; to be followed, undoubtedly, by some body of constructive law, limiting indefinite rights of combination and elimination which, for want of a better term, may be called "Regulation." It is unlikely to be Communism or any advanced form of Socialism, because the more permanent tendencies seem to me to lead in another direction. Just as many socialist experiments are actually in course of trial at present, such as the distribution of parish relief to help to maintain a strike, so we may expect many more than one political and reputedly democratic effort in the direction of trying to take more out of a pint pot than can be put into it. Yet I doubt, if they will be final.

The important lesson which the democracies of progressive economic States have yet to absorb by intensive study is, that while they have, so long as they are united, the control of industry by their superiority of voting power, they must also, in so far as they are masters, learn to reward adequately all those who are working for them, or they will themselves suffer.

* Translated by C. A. Mallock, with a Preface by William Smart.

The psychological formula for the periods or processes of imputation and regulation, is a return to a considered, as apart from an inspired, justice. Away with the combative instincts, under whose dominion we have groaned for a short period certainly, measured in time, but long considered in its retardation on the rate of progress. It seems to be the root trouble at present that the partners in industry conceive of it as a physical and a moral struggle, where the partition of the results is of more importance than the quantity of the output. I do not blame the party of Labour for giving so little credit for their assistance to the other factors of production, where the latter seem not only ignorant of any merit of their own in the joint effort, but not even curious as to the exact facts, or anxious to determine the just theory of the method of accomplishment. One side seems just as determined as the other to owe no gratitude to any but the God of struggles, counting mere fairness as almost a matter of dishonour.

We sometimes have the unlovely spectacle of the second and third generations of money-grubbers holding on to the immoral spoils, while denouncing the courses in iniquity by which they have been acquired ! What a surprise it might be for them to find that they are more honest than they think ! Or, again, we have the amiable extremist marrying into the mammon of unrighteousness in order to drag the moneybags into the magma of the coming millennium. What if he, too, were less picturesquely predatory than he portrayed himself ! Are we not all, perhaps, exaggerating our individual moral importance by embarking in idealistic struggles and crude crusades instead of humbly seeking to do a little more work ? What if we all refused to wash save in the waters of Abana and Pharpar !

Wieser warns us, in seeking the truth, not to be above our facts. But the facts of to-day lie along dull paved roads. Our lives are a matter of a few plain rules. Industry, on the whole, must be judged something in the same way as the return from the field of the husbandman. Let me quote a passage : " The

peasant, dwelling in some cleft of the mountain, says to himself that this field is more valuable than that, and this he could not do unless he understood the art of separating the return of the field from the return of the co-operating labourers, tools and materials. These are rules which arise naturally from the very nature of man, when he finds himself confronted with the problems of economic life. In applying them, the attempt would undoubtedly be made, even by a communistic State, to calculate the result of each productive element. And in a highly cultivated State these calculations would be made with great exactitude, in order to lay down that plan of production which, for the time being, was most effective." *

The theory of elimination is always difficult. Wieser reviews Karl Menger's praiseworthy attempts to solve the problem, and comes to the conclusion that they break down, unfortunately, in just the same way, only less disastrously, as they do in real life. He states the reason quite clearly, and it is irremediably true in both cases. The withdrawal of a single factor, even hypothetically, from the problem of production is the elimination, not only of the usefulness of the factor itself, but of some of the usefulness also of the other two. How pathetically evident that is in the case of real industry !

In fact we cannot, by any hypothetical method, change a dynamic into a static problem with any useful results. Values are fluid. On the nature of Value depends the nature of the product whose existence attracts Value. The nature of the product determines the Value of the function of each of the factors which combine to create it. The psychological function of each factor is that which determines the share of the reward to be assigned to each one by just partition from the Exchange Value of the created article. The just determination of that psychological function, in the case of all the factors of production, contains some surprises. Perhaps the most surprising is that Capital, with all the dignity and paraphernalia implied in the use of the word, is, by nature, a democratic factor of

* Wieser, "Natural Value," p. 73.

production, and emphatically the true ally, and not the enemy, of labour.

Capital and Labour are, at present, like two soldiers of the same army in an advanced trench by night, grappling with each other in a life struggle, until the revealing light discloses them the one to the other. Fortunately, neither combatant is mortal, no death wounds can be given; yet they cannot escape from one another's arms; and the dawn is long in coming.

While Wieser's feet get entangled in the meshes of the Marginal Utility Theory, he arrives at one main conclusion about Capital, the same, in fact, which was the chief pre-occupation of Ricardo, the equalisation of the rate of interest.* This law is so curiously uniform that there is a tendency to honour it, he says, not metaphorically, but literally, in the breach. If, for instance, a capitalist gains £26 per annum on £100, he does not always say that he earns a rate of interest of 26 per cent. on his capital of £100, but he begins to consider that he earns a rate of 6 per cent. on his capital of £120. Of the consequences which flow from this estimate, I will consider the effect in a later chapter.

* Wieser, "Natural Value," p. 147.

CHAPTER II

THE FOUR FACTORS OF PRODUCTION

The separation of the workers from the ownership of the instruments of production rather than the series of technological discoveries that transformed industrial processes is, to the scientific economist, as well as to the Socialist, the essential feature of the Industrial Revolution.

MR. AND MRS. WEBB: *The Decay of Capitalist Civilisation.*

THERE is much food for thought in this statement. While not quite endorsing the implied depreciation of the industrial conquest of material nature, which, coming, as it did, with a rush in one country, had world effects very different from what they would have been if the change had come everywhere more slowly, I am quite sure that it is true from the immediate point of view opened in this chapter. The separation of industrial ownership from industrial labour came as a thunderclap, and stereotyped in our books the standard threefold economic classification of the factors of production. It obscured the truth that there never have been three factors in the psychological sense. There have been two only in the theocratic and customary stages of economic progress, and there are now four. The only true division is between the aristocrat, or controller, and the democrat, or worker. The capitalist employer is an intermediate ideation arising from the break-up of the feudal system. The task of abolishing him will not be effected by the Socialist State, which lacks the power to suppress him and the capacity prematurely to take his place. He is fading away as a multiple identity, if not like snow wreaths in June, at any rate like munition workers after a peace. He will not long be wanted.

In my experience of business he was not to be frequently found except temporarily after the war, and then he had a

habit of honourably resigning that position by buying newspapers. What are in evidence are a few shy people, who profess to hold that proud position, but who, when pressed to risk £30,000 or £40,000 on some valuable invention, murmur something indistinctly about trying to interest a few friends in the project. They turn out to be, as a rule, pompous channels through which large and small streams of money, or credit, trickle backwards and forwards.

The true modern capitalist is the owner of a large or small block of shares which he is too busy to look after himself ; who pays another person to direct or supervise for him.

The director or supervisor looks after this small stream of credit, and many others of the same kind, and makes a mixed kind of living by looking after others and being looked after by them, and depending on a form of general mind to keep him steady and sensible, and moderate, and to prevent him getting unduly excited either in his altruism or his egotism.

It is this general mind of Capitalism that I call the psychological capitalist. The individual capitalist is very seldom an employer. He is deferential to several grades of superior persons, whom he pays very handsomely to do his employing for him. He relies upon them craftily for a certain modicum of current information, which he chews up in his general intellectual apparatus, and digests in his semi-conscious apparatus, and, finally, he develops energy, and makes his multiple daily decisions by his subconscious apparatus.

True Capital is not easily met in the flesh. The man whom we do meet is the man who likes to call himself a Capitalist ; who is flattered by attentions and still more by threats ; who keeps his few private original opinions with desperate earnestness to himself for fear any one should discover how timid and, oddly enough sometimes, how conscientious they are. He is limited far more by his ignorance than by his selfishness. He holds on tenaciously to a few wise saws and cruel maxims in self-defence against his human nature, fearing that his subconscious self will some day make him a beggar through weak-

ness and kind-heartedness. Sometimes when his anger, and more often when his fear, is aroused he will be cruel and unjust. He is fond of buying socialist books and laughing at them and being half-convinced. That is the man I often meet in business and not "the economic man" as employer.

But the general mind behind the individual, on which the latter relies, is shrewd and not sentimental. When acting with knowledge it is very strong and capable of far-sighted purpose. That is Capital. The truth is that, by the complication of specialised financial behaviour, all emotions, save a weak anger and a calculating fear, have been placed in commission. The class of financial specialists do not manage their own money, like the classical heroes of the Five Towns, but every one else's. Like doctors, they look after each other's families and cultivate solely the professional point of view. They are great experts, especially in London, in money, and about as poor judges of politics as they are of war.

The discovery of the identity of Capital as a factor of production can be psychologically ascertained in answer to the following questions. Who are the people who have got any money or realisable wealth invested or capable of investment? Who are the people who expect interest on their money? Who are the people who are anxious to get their money back?

The identity of these people is the immediate problem of the present moment. Their economic function will be determined later. It will be noticed that employment has nothing at all to do with the question. It will be a matter of probability, but of no special logical concern in the present connection, that somewhere or other employment results, but, as a lawyer would say, this point is not of the essence of the contract. The outstanding feature of the functions and use of Capital is its indifference, and therein it resembles Labour. Equality of return for equal risk, for equal anxiety, for equal lengths of time, characterise the use of both one and the other.

In considering the combination of all factors of production, the point on which I wish to insist with regard to Capital is its

absolute separation, in essence, from ownership of anything else but itself, from control of anything else but itself. The fact that formerly the ownership of "realised wealth, engaged in or destined for production," was at one time inextricably involved with the ownership of land, and later generally implied in the control of labour, has nothing at all to do with the absolute psychological independence and indifference of Capital at the present day.

Speaking of Europe, from which we progressive nations draw our customs and origin, the long alliance of land with military power gave the monopoly of leadership to one special class, and usually exhausted all the other surpluses from which liquid capital might have been drawn. There was very little money about. Land was the chief capital and almost the only employer. The system was a dual one as much as in the days of Abraham.

Gradually the supremacy of the landowner became atrophied and there emerged from him the capitalist-lender and the capitalist-employer. For a long time, until nearly the present day, these two factors were regarded as one. Only those who look forward, and not behind, can see that modern tendencies are bringing out the strong psychological differences between these two characters. The many-sided faculties of the groups, which handled at one time their own money and now the money of other people, are being differentiated and parting slowly towards the old poles of the magnet; the aristocratic or individualist pole; and the democratic or socialist pole.

Capital is already become democratic. The vast bulk of loanable money is owned by nobody in particular. Even rich men lend each other their money, as being safer than in their own hands. What is more surprising, they are fond of lending it to poor men.

In Cobden's day, as is plainly set forth in his own account of his early start, the credit of a poor young man, with good character, was an asset worth much money to him.

There are few left to drop a tear over the grave of the old capitalist ; the capitalist who flourished during the Industrial Revolution ; the capitalist with horns and hoofs. Some day justice will be done to him in the acknowledgment that he did much to cure himself. Among the true founders of Socialism, if William Thompson was a landowner, Robert Owen and Engels were industrialists' capitalists.

Capital and Labour are the two democratic factors of production. Both are, as a rule, indifferent as to the nature of the work on which they are employed. It would be difficult for a miner, in a wealthy and fruitful pit, to modify his output in order to save the shutting up of a struggling pit next door ; the result of his endeavour would be too much a matter of contingency. An operative might support a general policy of short-time in the cotton trade on general agreement as to the interests of his industry, but he must think foremost of his own mill and his own work and not of those of his neighbour. So the rich man's balance at the bank is available for loans to any kind of moral or immoral concern, which has good credit. The widow in the by-street makes her small investments based only on their prospective return.

Both Capital and Labour use their utmost endeavours to contract themselves out of the risk of any enterprise. So far from seeking either control or active share in management, or the anticipations of success, or the excitements of risk, they cut them all out and insure themselves so far as they can against every contingency.

Both Capital and Labour exercise their power in the mass. They seek no personal distinction by the use of authority. They are anonymous and desire to remain anonymous.

Both Capital and Labour exorcise themselves from the spell of the emotions. If a young man or two gleefully puts his first hundred pounds or two into the noble enterprise of laying a cable across the Atlantic, or of binding the continents with chains and the zones with links of iron, he soon loses the habit with his money and accustoms himself to estimating prospects

of profit or loss. It is true the word "gold" will always attract him, but that is because of its advertising Value, which is traditional and great. Oil is nearly the same.

Equally indifferent are the two partners to the call of distress. In this respect they put their feelings wholly into commission. Even their charities are provided for by boards of directors and committees of trade unions.

The unit of money used as capital, and the unit of effort used as labour, have their own dichotomy, the degree of which is measured in time. Their essence is sacrifice. Between them there is no dualism of personality, no real internal opposition, no coming from different directions, no parting into divergent ways, except under the influence of inadequate ideas.

The millions of a debauched prince or profligate child ; the funds of Bethels and Refuges ; the reserves of trade unions and banks, and insurance companies, and railways ; the savings of brothels, and drink shops, and nurses, and small children, all seek the same broad way of safety, and commercial use, and reward proportionate to time and amount.

The point I am here emphasising is the almost total divorce of capital from risk and control, which are aristocratic and personal characteristics, calling for the use of intellect, the force of emotion, and the hidden powers of the personal unconscious dominant self.

The aristocratic factors of production are also two, and they are as different, or perhaps even more different, from one another than are capital and labour. The spiritual difference between them may be summed up in the phrases : One has the power of saying "No," the other has the faculty of saying "Yes."

Land is still the most convenient single term to cover that form of aristocratic superiority over industry which arises from an acquired and secured position, whether by inheritance or purchase. The essence of the aristocratic monopolist lies in his power of putting a stop on enterprise, either by denying the use of soil, microbes, access, living, standing, and working

room, or some essential material for industry. He has to be bought out either with cash or a perpetual annuity, or a temporary annual charge. The essential point of his position, which separates him from the capitalist, is that, unless he parts with his rights out and out, he remains a beneficiary or residuary legatee of industry, and of the prosperity of the country or town where his interests lie.

Agricultural rents no longer have the special interest which they had in England in the days of the Corn Laws. On the other hand, town rents have obtained enormous importance in the Old and, even more so, in the New World. The early settlers in a new country, fleeing from antiquated injustices of landlords and oppressors, do not take Socialistic views about town sites in their growing districts. Other natural advantages follow suit. Now landlords in all countries, although they may individually limit their special rights, are always, as a body, interested in the general prosperity of the community. They have, what used to be called, a "stake in the country."

Side by side with the landlord-monopolist-aristocrat, who says "No," stands the positive-aristocrat-leader, who maintains the perpetual affirmative in industry, as perhaps he does less forcibly in other pursuits: the man of accomplishment. He is the man of vision and enterprise; he is hardly ever a capitalist in these days, and, if he acquires wealth, his schemes go beyond it; he is often not the nominal leader, even when he is the real one; he becomes more and more often, in our kindly modern world, the man of success; he is also quite often the man of suffering, the unsuccessful inventor, the displaced talent, the man who is successfully exploited and pitied by others. The more original force he has the less likely is he to succeed. In Anglo-Saxon countries, and under the guidance of the general business mind, we like to have our capacity in safe and moderate doses.

Temperamentally, as a man of accomplishment, he is allied to the artist; it may possibly be that if some artistic or inventive side-pursuit is involved in his business he may follow that

and leave the financial success to others. He is not fond of risks, but since many risks lie across his path he must take them. He does not worship wealth nor success in its pursuit, but usually he is judged by that test and no other. In fact, he is only half-useful to his immediate associates, and for their purposes, which are called more solid, he must be linked with sound stable companions. He is serving, truly, the world and posterity, who will not always be grateful to him. I will consider later in what way his functions, as a pioneer and forerunner, are bound up in his official capacity as an employer, and show how that latter much-abused term covers really a mixed commission of varied talents, only some of which are generally to be found in the man who is himself the nominal employer.

What we particularly lack about him, in order to bring him comfortably within the arena of economic behaviour and turn the psychological limelight on him, are a formula and a name. In England he is generally called by the French term, the *entrepreneur*, but that is essentially a misnomer. The actual undertaker is usually some professional promoter or organiser, the central point of a little experienced group of business men, whose special faculty it is to evaluate small and reasonable risks. The true function I will develop later. For the present I will call it Risk-Enterprise.

CHAPTER III

THE DEMOCRATIC FACTORS IN PRODUCTION: CAPITAL AND LABOUR

The contract which he made with his master was a contract not of equal with equal, but of equal with unequal, in which the labourer had no chance of gaining a proportionate share of the increasing wealth of the country.—JOWETT: *Memoir of Arnold Toynbee*, prefixed to Toynbee's "Industrial Revolution."

PROFESSOR CANNAN * has set at rest one important controversy as to the origin of the term "Capital." Many writers had been tempted, by the classical sound of the word and by its evident and real antiquity as a fact, to give it a Roman origin. Böhm-Bawerk went so far as the plausible sophistication that it meant *Pars capitalis debiti*, for which he gave no authority. It is, oddly enough, a very recent word, more recent than joint-stock organisation, and meant only the particular share, or *share per head*, of the risk or gain of various individuals in a mercantile venturing.

It is unnecessary to say that the institution of Capital, and Interest derived from it, is older than historic times, and it is more than probable that the Assyrian tablet, in the form of a promissory note, provided for virtual interest by way of discount on the sale of the tablet. One of the earliest references to interest, appearing in the Book of Ezekiel,† provides a distinction between "usury" and "increase," to which I have not seen any express attention drawn. I have no doubt that the reference was probably to an agricultural transaction, to a share in the crop; the creditor being entitled to part of the "increase" due to a loan, something in the nature of a part-

* *Harvard Economic Quarterly*, October, 1921.

† Ezekiel, xviii. 8.

nership arrangement ; " usury " being an abominable extension of indebtedness from one year to another if the crop in question had shown no " increase."

The theory of Capital has been much laboured, and quite justifiably so in my opinion. There is no more fundamental social institution. That it is imperishable in nature and will exist in a Communist State I have no doubt, any more than Wieser and Cassel, who have elaborately argued the point. That it has also appreciably changed its nature, with varying economic conditions and altered economic behaviour, is a matter of fact and observation.

Böhm-Bawerk has discussed it most exhaustively but not quite finally, and his work has been treated over with a fine tooth-comb by others. I will only refer to the current theories very briefly, and state my objection to their validity. It is but fair to say that, in common economic opinion, there is no theory of Capital which has not contributed some element in the final explanation of Capital, except the Exploitation Theory.

(1) Productivity : Implies a partnership between the lender and the worker which does not, in fact, exist. Interest is paid on unsuccessful enterprises, and even in some cases with the diminution or total loss of capital. It is also limited to the fixed rate.

(2) Use : Implies that there is some pleasure in the power of handling wealth for which payment is exacted, as apart from productivity. It is a very far-fetched explanation, which covers a small proportion of cases.

(3) Transformation : Resembles Use theory, implying advantage from the power of changing the character of capital. Interest would resemble a toll, but it is indistinguishable from payment for risk, which is strictly profit.

(4) Labour : Reduces interest to another form of payment for management which is otherwise provided for. Otherwise the hypothesis of wages for saving approximates to the Abstinence theory.

(5) Exploitation : Denies the validity of interest altogether.

Every man would then have to do his own saving or miserably perish.

(6) Abstinence : The most famous of all theories, invented by Nassau Senior, accounts for much of the reward of interest but cannot account for all kinds of reward. It is obvious that, as Lassalle said, the Rothschilds cannot be regarded as the greatest abstainers in Europe. No theory can be acceptable which breaks down at any point.

(7) Time Value of Money : Especially commended itself to Böhm-Bawerk, and, in the form of discount, undoubtedly supplied a substitute for interest in times when usury was forbidden or looked at askance. It is not, however, a universal or complete explanation, because it depends on a psychological hypothesis which is not always true : namely, that present enjoyment is preferable to future enjoyment. Notoriously that is not the case with a certain type of mind, which more powerfully visualises future distress than present pleasure. Some people do, in fact, largely save for nothing. These people can often be only induced to accept interest with difficulty or not at all if it endangers their capital. These people are natural hoarders.

(8) Functional or Psychological Theory of Capital : Includes much that has been elsewhere stated, but does not, strictly speaking, allow any credit for past effort. The use of £100 is indifferent whether furnished with ease or effort. So long as there is Productivity, both the source of it and the merit of it are indifferent, because the risk borne by the lender is strictly limited and calculated without respect of its cause. Time is taken into account but only in its place with other things.

The functions of the capitalist in lending money are four, and individuals value their own sacrifices in respect of each item in different degrees, but the sum total of these psychological stresses remains singularly steady over long periods of time chiefly on account of the vast differences of temperament between the varying individuals who exercise the functions in the mass.

- (a) Waiting for the return and use of the principal sum.
- (b) Risking the loss of the principal sum.
- (c) Watching for the return of the principal sum.
- (d) Delegating all minor risks to subordinate agencies.

Now, historically, the first two functions were far the more weighty tasks in half-organised society. With the complexities of modern civilisation the first two have become easier and the last two more difficult. Finally, at a further stage of development, the last of all has become recently progressively easier with the modern refinements of insurance, but the reality of the minor risks is shown by the increase in the rate of interest when the seller has to bear them himself. In advanced countries the difference between 5 per cent. and $7\frac{1}{2}$ per cent. return on fixed income-bearing securities represents a rough evaluation of the sum total of these minor risks.

Mr. Lavington * has well described some of the minor risks of general investment, but I am not sure that he has properly drawn the line between the major and minor risks, nor, further, that that line is very easy to draw. It is a point in the psychological theory of capital which needs to be thoroughly worked out, and I have not yet devoted the time and practical attention to its intricacies that I fully intend some day to do.

In my present opinion the risks cannot all be divided between insurable and non-insurable items. Some can be almost entirely insured and others only partially so, and the loss of the principal sum can only at present be guarded against by the private attention and vigilance of the owner, supplemented by the warnings given him by the delegates whom he pays. These delegates are sometimes so sensitive that they go off like a premature fire-sprinkler, and do more harm by wrecking credit with their flood of warnings than the goods would have suffered by a partial conflagration.

On the other hand, the Socialist State, in attempting to replace the watchful powers of the prudent investor by a brilliant accounting department, will find it difficult to get warn-

* English Market for Capital," *passim*.

ings enough. This up-to-date instrument will soon come to favour its Master's apparent interests and to neglect his real dangers. The hypothetical £100 invested will continue to earn an approximate $6\frac{1}{4}$ per cent. net yearly, after providing for scientific sinking funds, until its capital value has sunk to 81 or 79 before the doorbell rings which brings in the policeman. Its capital account will approximate to the level of Soviet ecstasy of calculation, foreshadowed by Turgenieff, when he said that in Russia 2 and 2 did not exactly make 5, but they made 4 more splendidly than was done anywhere else.

The following tabulation of risks and costs is given tentatively to illustrate the complexity of the subject without any suggestion that it is exhaustive. A risk is not the same as a cost, but a cost in this connection represents the expense of attempting to nullify or guard against a risk which, I must be careful to say, it does not and cannot do, nor does it altogether honestly profess to do so.

I may begin by saying that pure interest tends to be the same all over the world owing to the peculiar mobility of capital. Local variations of interest indicate special risks, or intricacies, in the annual Value-Price of Capital.

The risk of the loss of Capital, absolutely or partially, is uninsurable.

The cost of watching the market, or of having it watched.

The risk of the loss of all or some of the interest is only to a limited extent insurable.

The risk arising from imperfect knowledge of investment is over-estimated. Mr. Lavington calls it the Price of Uncertainty. Moral Certainty, very different from real certainty, is overvalued.

The risk arising from immobility of resources—such as mortgages or any form of fixed interest-bearing securities—in view of inflation or other dangers.

The risk of delay in repayment.

The risk of repayment at an inopportune time.

The cost of marketing and remarketing.

The risk and cost of realising the capital at an intermediate period before the end of the fixed period contracted for.

The risk of the temporary illness or incapacity of the borrower, or his death.

The risk of the temporary illness or incapacity of the lender, or his death.

The problem of Interest has been a separate one from that of Capital. It was more practical, but less vital. What the Canonists fought shy of was "pure interest." In their doctrine they exaggerated very much the difference between "increase" and "usury." They held that if God did not give the increase man should not exact the payment.

With the establishment of the principle they were almost content. They allowed payment for delay—*Interesse non debetur nisi ex mora*. A loan after being free for a time became subject to interest—*damnum emergens*, resulting loss. They allowed payment for time-value by discounting—*lucrum cessans*, loss of profit. They allowed insurance and reinsurance—*contractus trinus*, whereby a third party would insure the lender against the non-return of the debt, charging a rate which would not only pay insurance to himself but leave a balance in lieu of interest to the lender, the debtor paying both parties. Finally they admitted the justice of interest by way of parallel to Rent.*

Sir William Petty brings out Rent very well as the standard of minimum or pure interest, and defines also a proportion of payment of risk. "As for Usury, the least that can be is the Rent of so much land as the money lent will buy, where the security is undoubted; but where the security is casual, then a kind of insurance must be interwoven with the simple natural Interest which may advance the Usury conscionably into any height below the Principal itself."

Petty's remarks bring us, however, face to face with another problem on the other side of interest; the difference not only between "pure interest and "risk interest," but the

* See Cassel, Ashley, Endermann, and others.

difference between "risk interest" and "profits." A big shipping company, for instance, in lieu of insuring all its vessels with Lloyd's, will form its own Insurance Fund and carry its own insurance in order to obtain the profits on its insurance.

Far be it from me to distinguish between the major and the minor profits, but we are now beginning to enter into another and wider field. Owing to the vast expansion of modern business units, and the amalgamation of many grades of undertaking in one vast balance sheet, it is evident that, just as in manufacture main products and by-products each contribute their quota to the grand result, so, also, many subsidiary profits are licked up, such as those of insurance, warehousing, bill-broking, and included in the revenue of a large firm. In fact, so great is the complexity of these fine shades, that an absolute scientific division between interest, risk-insurance, and profit is not obtainable. It is a fair argument in favour of the psychological method that it affords the only principle by which distinctions of function can be clearly appraised. Capital contracts itself, so far as it can, out of all risks. Enterprise absorbs them, overcomes them, and makes a profit from them by its skill and energy.

The problem of handling democratic capital is a new and especially difficult one. It has never been easy to keep capital working smoothly with labour in production, but helped, as they were, by tradition, the aristocratic and democratic factors in production have carried the Old World along fairly well on a basis of one employing the other without any grave interruptions of progress. The sole cause of their ultimate failure to continue doing so has been the inability to keep peace between two types of mind and character, each of whom wished to be dominant.

The history of the Christian era has chiefly occupied itself with territorial struggles, which were largely prompted by pressure of population, but often became merely dynastic rivalries. At one period they took an ugly theological form

which drove the more energetic minority of the Western countries into a New World with manifold reactions.

The chief result of those reactions arising from American Independence, the French Revolution, and the Western Industrial Evolution, has been a new alliance wherein the ancient landed aristocracy lost their monopoly of the control of capital, which now joined hands with the *entrepreneur* exploiter. It has been miscalled capitalism. But for 150 years the economic world has been under a hazy confusion of thought as to whence the new supplies of capital have been drawn. The new sources have become increasingly democratic, and the element of risk being largely modified under modern methods of investment they will soon come to be recognised as anonymous, fiduciary, impersonal, indifferent, and altogether beyond the reach of control or criticism. This circumstance, or chain of them, is becoming dimly apparent to the Russian Soviet State.

The Russian Communist organisation is an antediluvian experiment of considerable antiquarian interest. It started badly with retrograde ideas and equipped with a dead economic phraseology. Marx himself had the mentality of the men half a century before him and lived on the same basis of facts. Feeling himself out of touch with his contemporaries, and not recognising the cause, he imagined himself, owing to the Hegelian formula, which he borrowed from Proudhon, to be not less than fifty years ahead of his time. He died in that comforting belief and his followers remain at the same point where he was then.

The insurrectionary Russian Government, controlling a docile peasant population, might have made some success with Marx's rudimentary ideas had its members been intelligent enough to use the powerful and primitive instrument of the Russian Church, which lay ready to their hand. Unfortunately, the illusion of Modernism prevented them, and the Western world lost the experience of another Oriental rejuvenating religious movement.

The solvent which has brought us into our present transitional stage was the Great War. It was partly an expansional, but something also of a commercial war. The alliance of moneyed interests and commercial enterprise with an expensive military system in Germany made Central Europe impatient and precipitated her against the Western democracies, who broke her. Democracy, in this country, has won the war and is now about to take control of our commercial and industrial system.

Whether democracy will identify itself with the sole cause of wage-paid labour I very much doubt. The actual wage-earners are not in a majority, and their claim on the sympathy of others has been well urged, but not quite to the convincing point. For the moment, however, I will take the view, not infrequently adopted in popular assemblies, that wage-paid labour represents the bulk of the active industrial interests in Great Britain.

On that hypothesis, and its corollary that labour will have power to direct the flow and disposition of capital, I would recommend the new directors of our national unlimited liability Company to reflect whether they rightly understand the nature of the institution which they now propose to handle for the first time. Will they, in their turn, pay high wages?

During the intermediate period between landlord supremacy and the present date, when the prevalent generalisation placed the control of wealth, reserved and destined for production, in the hands of a few enterprising members of the middle class, imagination vividly pictured the group of employers as synonymous with a few active and wealthy men, prominent in Parliament, pushing in society, pre-eminent in nothing save that of their reputation for being the general promoters of prosperity. They liked to think so themselves. In the class above them they were accepted at their face value, which was a small one. To the classes below them they represented, unfortunately, a kind of ideal of expenditure, such as those who had not experienced its frivolity treated with

undue importance, and regarded with a mixture of envy and contempt.

I hope this figure of straw will soon disappear. It is an evaporated generalisation. One could give it a succession of names during the last fifty years, but why disinter these rapidly mouldered reputations? My point is that it had little to do with capital. It represented a very temporary command of funds, little of which were ultimately destined for a permanently productive direction. The real capital of this and other countries was steadily flowing in small threads and streams, seeking to disintegrate itself from large masses with heavy responsibilities into small ones with the coveted lack of distinction, with anonymity, with impersonality.

Here lies the true explanation of the floating, as limited liability companies, of innumerable businesses beginning in the great prosperity year of 1896,* when the high index of wages of 160·7 stood side by side with the lowest index number of prices for the last century of 79·2, and ending, for the time being, in the South African War, but reviving afterwards and continuing, with little intermission, ever since. The process of disintegration of large holdings in capital was attributed to the ingenuity of promoters, to the greed of capitalists, to the falling out of the old captains of industry. Each explanation had some little truth, but none accounted for the vastness of the change, nor for its persistence. The movement was instinctive and subconscious. It was the democratisation of capital, or, perhaps I should say, the most noticeable step in a process which had never stopped and whose eventuation was inevitable.

Since the great year of 1896 how has democratic capital in the United Kingdom treated the labourer? His position has,

* For wages, see Professor Bowley, *Economic Journal*, December, 1898, and for Index numbers of prices, see Mr. Sauerbeck's figures. Both are calculated on the year 1850 as a basis. The conjunction shows the maximum of real wages according to Mr. W. T. Layton, "Study of Prices," p. 96.

on the whole, grown steadily worse. Two wars, both very great strains on the resources of the country, seemed in each case to improve his nominal position by giving him temporarily the advantages of increased remuneration owing to diminished supply of labour. Immense progress and experience in the art of combination have come to help him, both before and after the Great War. He has, in many grades of employment, in many standard and well-paid trades, higher money wages than he had before the war. Apart from the question of unemployment, is his general position really very much better within a period of about a generation? Including the question of unemployment, is not the position of wage-earners, as a mass, on the way to be very much worse?

It is impossible to compress the controversy over labour and wages into so small a compass as that of capital and interest. James and the younger Mill, Longe, Thornton, Walker, Professors Taussig and Clay, have written wisely, and with insight, on the theoretical side of the question. It would require a volume to do them justice. I will only say here that, in a sense, I believe that the Wages Fund Theory is substantially true. Although the formation and maintenance of the Fund is now more complicated in the era of democratic capital, the operation of its expansion and curtailment acts with crushing force in much the same fashion as was predicted of it at an earlier date.

So much prejudice exists against the theory, as it was stated under its classical name, that it may be just as well to avoid claiming any intellectual link between old James Mill's crude words and any modern formulation. I should prefer to put it: that, in view of the wholly impersonal and unsentimental sources from which capital is drawn, and having regard to the elaborate defences against risk which the modern system has raised round it, the average amount of wealth in a realised form, reserved from consumption and destined to production in any three years of peace, will not be altered by any considerable number of accidental circumstances.

To say that this constituted a "fund" is not a useful metaphor. To call it a "flow" imports attention to the fact that mobility is a feature of prime importance, but, otherwise, the term is no better. The only proper description of it is that it is a psychological fact of immense magnitude. It is not confined to one country, nor is it universal, nor uniform all over the world. It is a great cloud of Values, with local centres, or foci, of clouds of greater or less density, always changing its local conformation but not easily changing in the total mass. It is the valuation of the future use of wealth, and the pricing of it against the present use of wealth, by many millions of people.

Observe that, in this naming of an amount, the total referred to is not that of wages, but of a larger total destined to production. Out of this amount the share allocated in any annual estimate to wages is not fixed, but elastic, and its elasticity tends to act against wages. The effect on wages of its expansion or contraction is probably worse than that of a fixed wage-fund. The anticipation of profits, which is determined by the relation between anticipated return of product and anticipated cost, of which wages are the larger part, sets in motion a flow of credit in the direction of employing labour. Hardly any expenditure avoids employment; all capital expenditure involves employment in a large degree; but all directions of capital expenditure do not involve employment in an equal degree.

Any premature increase of wages in a particular direction, which presupposes increased productivity, tends to divert the expenditure of capital from that direction in proportion as there are other directions offering better openings for profit. Any general increase of wages, before increased productivity has developed, will divert capital away from all directions in which wages form a heavy part of cost. The elasticity of the credit system acts heavily against the employment of labour whenever wages are increased out of proportion to expected increase of return.

Consequently, a general premature rise of wages is the only circumstance which cannot be considered as accidental in the sense of affecting this particular issue. The supplies of money, as represented by deposits in the banks of progressive countries, instead of being used actively three or four times over by the multiplication of credit, lie inert with the minimum of use or are allocated to foreign countries on expenditures, where the labour cost is small as compared with the total expenditure of capital.

Inflation of currency, by temporarily increasing supplies of capital to new and inexperienced men and giving chance profits to bewildered holders of large stocks, sets going the less efficient machinery of production at a great pace ; but, even when the resulting profits are real and not fictitious, the kind of investments they represent are outside the reach of the small democrat who owns the real millions, and his inclination to investment is not effectively nor permanently stimulated. Not much harm is done until the small man begins to take fright at rising prices, when the great annual reserves of capital, brought into being by fresh saving, are apt to be dissipated in progressively wild expenditure, sometimes of a personal, and sometimes of a speculative, nature.

In discussing and commenting on these phenomena there is sometimes a very reasonable effort made to short-circuit the description of the machinery of credit, or to represent it as something which brilliancy and ingenuity can adequately provide for when the main principles of industrial production and exchange have been determined. The particular task mentioned as a preliminary condition has never been satisfactorily undertaken. Let us, however, for the sake of argument, short-circuit the problem of production, and describe it as the sacrifices regularly made by one worker for another. Remember that the capitalist is tending more and more to become a worker ; the exceptions are flamboyant, but their case has been exaggerated ; the returns of high income are overstated ; under the pressure of income-tax and super-tax, both here and

in America, nominal incomes are being scaled down by having their necessary expenses deducted from them before payment of tax; where they are not scaled down their surpluses are passing away in taxation and being subdivided among families.

So long as the masses of wage-earners are presented as working mainly in groups for each other, it is evident that when the production of one group is slowed up by the trade disputes attending the rise and sometimes the fall of wages, apart from the immediate dislocation of subsidiary production involved, there is an immediate loss of output. Other attempts to slow up production generally, called "ca' canny," also reduce output and increase costs. There is no possibility of compensation for these delays and inefficiencies except by drawing on the loose funds of liquid capital, which are easily exhausted, with the result of diminishing the total output. Meanwhile, the inflow of fresh capital is discouraged. The result is the fall in the divisible amount of net product.

The chief loss of industry in these prolonged disputes is not only felt in unemployment but in high prices. The large supplies of capital required for financing stocks and exchanging produce are sucked dry. The business of market supply becomes more difficult and expensive. The workers get less and less return for their money-wages. Meanwhile, the wage-earners are buoyed up by the imagined spectacle of the horned and hoofed capitalist being brought to his knees. They believe that in the middle class there remain countless hidden reserves of wealth to be drawn upon by the workers and the country during the course of a prolonged struggle, whose issue will leave them triumphant with the maximum real wages they have won and, perhaps, something better—with full employment in most years and a high rate of unemployment in the short bad months. It is all supposed to be in the pockets of the *bourgeoisie*.

It is hardly a subject of humour that the middle classes themselves do not rate their functions and their services to the

community much higher. They have little self-estimation until they have donned the negative uniform of the classes above them. They are ever harassed and driven by the need of maintaining and improving the standards of comfort or display which are the banners of their status and the distinguishing stamp of their grade in life. They are, perhaps, the most self-conscious and the least class-conscious of all the groups of the community. They keep going the large circulations of the humorous papers which deride their own social ambitions. The more enterprising of their sons and daughters endeavour to escape from their ranks by climbing up or down.

It is faintly exciting, and even arresting, in our day, and particularly in our country, to observe that the middle classes of other times, and in some places, had their proper pride and the instruments of a high self-respect. They achieved splendid liberties, fought great wars and made kingdoms. They have not omitted at times to despise the nobility which dwelt among them. They have built up enduring aristocracies.

No ; these are the days of the dignity of labour. It is a very real dignity, but it is probable that, like most of the privileges of modern times, it will have to be paid for by those who enjoy it.

These are the days of the overvaluing of leisure. Our increased productive power obtained in the last twenty-five years has gone in idleness ; not in the idleness that used to be called "sheer," but in the gentlemanly pre-occupations of political discussion and ambition, in the spirited emulation of sport, in the cultivation of the critical powers, and of the same degree of learning and artistic appreciation for which our upper classes have long been distinguished.

CHAPTER IV

THE ARISTOCRATIC FACTORS OF PRODUCTION

Yet therein now doth lodge a noble peer.—SPENSER : *Prothalamion*.

IN his “Roman de la Momie,” Théophile Gautier draws a not ungenerous picture of Lord Evandale, the lettered English aristocrat, travelling with his satellite Rumphius in Egypt and devoting his wealth to antiquarian research. At that date, near the middle of the last century, the British aristocracy cut a great figure in the world, and its political and social reputation stood deservedly very high. It remains, moreover, to be pointed out that, economically in the world of Values, the influence of this small class, the most prosperous survival of feudalism since the general social levelling of the Great War, exercises still a very remarkable sway over the standards of living in all the progressive civilisations of the world.

I do not so much refer to the habits of restrained and intelligent expenditure—a great deal of it unselfish in character—which influence the tastes of the more cultivated middle class, as to the more remarkable, and very much less remarked, intimate relations of character between the wage-earners of this country and the commonly accepted ideals of an English gentleman. The spirit of fair play, the love of sport, even with gambling, the encouragement of the emulative instincts at the expense of the combative instincts, are blessings not so old in the world that it is too late to look for their origin. I think they really date from the abolition of slavery and the suppression of the duel—two movements which, undoubtedly, took their first start from the upper classes of the British race.

That some of the credit for both these successful essentially

democratic reforms is due also to our wealthier middle class is undeniable, but they also get their share of it. From the psychological point of view, and especially in the consideration of Values, all the marked antagonisms developed in progressive countries between the middle class and the proletariat—so far as that entity exists—are accompanied by an odd affinity between the highest and lowest grades of society not altogether unknown in other countries, but more especially marked in Great Britain.

Some flavour of the liberal and sporting spirit is certainly present everywhere, even in American society. To name one conspicuous instance of it in social life, whose economic and commercial influence is far from being realised, there are hardly any widely spread games and sports which are not of British origin. Look at the universal popularity within our own time of such amusements as football, golf, lawn tennis, and even of racing and cricket, with their immense reaction on manners, health, clothing and international relations.

It is therefore pardonable, in my opinion, to treat of the relations between the upper and lower classes in Great Britain as being of especial economic significance.

Of the other side of the question I have already made some observation. A certain gentlemanly indolence must come into the picture. A high valuation of some standards of culture is apt to import a perceptible depreciation of others. On the continent of Europe there is not so marked an undervaluation of intellectual and artistic excellence as prevails in the British Empire.

It is well known that the British aristocracy, in the wider sense, is not synonymous with the nobility. The landed gentry are an integral part of it, and the connection between the wealthier middle class and the higher ranks is reinforced by frequent importations both ways.

To come down to pedestrian economic considerations, it is remarkable that the psychological importance of possessing

land extends far beyond the time of its political and social importance, which is not far now from being wholly dead.

There is one peculiar economic survival about all transactions in land and, to a lesser extent, in monopolies of a similar character. It is not considered ungentlemanly to be a close bargainer about land.

The habits of elimination, devised in the eighteenth century to protect the interest of the rich monopolists in the means of life, have descended into many other economic generations. They have had their repercussions, especially in Ireland. They are only slowly melting away before public opinion. They have not altogether disappeared.

Their fruits have been ignorance of the slowly changing conditions, and especially a want of sympathy between the wealthier classes, who should have rivalled each other in cultivating the gifts of true leadership. Instead of that nobler and safer pursuit, class antagonisms have been developed between them. A combative spirit has been carried into English politics on an upper-class level for just on 100 years. Neither of the historic political parties has watched, with sufficient closeness, the growth and slow splitting of the deeper social cleavage, originally arising from a movement in Continental labour, foreign to our soil.

The economic importance of the rent of land has received exaggerated treatment owing to the peculiar situation of Great Britain during the industrial expansion, which coincided with the great Continental wars of the French Revolution. Rent is only a form of return from partial monopoly, differing in no way from other classes of similar monopolies except in the special closeness with which the gradations of payment for the use of agricultural land was exacted from the prosperous farming class.

A far more important grade of valuable goods, the most valuable in the world, receives its annual share of profit in the same fashion. I refer to the use of brains of a high order, and to the use of highly trained brains—two classes of economic

goods which have never been kept sufficiently distinct. The payment for both is of the nature of rent.

There is one point about the landed interest of Great Britain to which I attach great psychological importance, which must be dealt with before passing on to the question of the analysis of employment as a function of business. The landed interest in this country presents the best historical case of a unified economic psychological group. It is a real group of unified unconscious thoughts and feelings bent to one economic end ; the exaction of rent ; the pursuit of the interests, including the higher interests of landowners ; the maintenance of a continuous interest in the country where the land is situated ; the development of a skilled system around it. It was never a mere figment, an evaporated generalisation, like capitalism.

In placing the Employing Class side by side with the great Landed Interest of this country, both paralleled, of course, with similar economic factors elsewhere, as representing the aristocratic groups engaged in production, I have in mind two salient features distinguishing them essentially from the groups far less choate than themselves, known as Capital and Labour. Both of the latter are indifferent and impersonal, points already indicated, if not sufficiently developed.

Land, and all it stands for, represents a group whose special interest it is to protect its stake in the country. The class of employer, with or without capital, which is becoming more and more dissociated from the owners of vested interests, consists of a group of men who have undertaken voluntarily what the landed interest have generally acquired by inheritance ; the embedded risks of an enterprise in which their life-interests, and often more than those, are involved. They are not economically indifferent* to the general interests, either of the country in which they live or as to the fortunes of the type of enterprise which they have initiated. As the landowners tend

* In speaking of indifference here, or elsewhere, I do not mean want of patriotism ; I refer to a question of identity of interest or the reverse, which is not a voluntary matter.

to be conscious of their own class and interest, so the employers are conscious of the general interests of their enterprise. But the latter seldom form a class, as they are socially involved with the richer group of middle-class exchangers and the larger purveyors, or mongers, of capital. They are not at all assimilated to the professional classes, with whom they are intellectually associated; a very peculiar group, who resemble the more skilled forms of labour on one side and the monopolists of specially trained faculties on the other.

The second point of want of personality is, I think, essential to Capital and, in a less degree, to Labour. Some element of personality is the chief aristocratic trait of both Land and Risk-Enterprise, in other words, of the Employing Group. This takes me back to the essential central point of my analysis of the elements of Value. Land by tradition, and the Essential Employer by the urging of the Unconscious Self, are driven by their Dominant Instincts, the one to specialise in political life and the other to control industry. At this point they part company. The former is a languishing factor no longer superbly organised for politics nor superbly superior to the baseness of a *banauisic* life. The latter constitutes the modern factor of industrial leadership.

The business of an employer is the business of leadership. Like most modern leaderships, it resembles the control of a modern army, and is largely placed in commission among a group of highly trained men.

The true leadership is very often to be found in some unit of personality, situated away from either the centre of gravity or from the ostensible crown of the highly organised edifice. The efficiency of the fully developed organisation resides largely in the fact that its system of division and co-ordination of functions has been developed by successive experiences of error, so as to render absolute failure and complete immobility of the machine an impossibility. It is an engine that cannot get on a dead centre, although it may stop for lack of fuel. Within the machine itself the directing brain is capable of a large

amount of self-adjustment, finding its initiating capacity sometimes in one individual, sometimes in another, always seeking for originality in order to place it in harness for the benefit of the common purpose, and, above all, giving sufficient free-play among its own best elements to encourage the most effective of them to unite in developing, in practice, the ideal resultant of product in the right amount at the right time.

To leave philosophical considerations aside for the moment, it is perhaps a little difficult to reconcile, to the satisfaction of the plain man, a statement that, in successful business personality of an effective order is required, with another, that in modern business the employing organisation has been put in commission among "skeleton groups"* of trained men. Yet such is the fact. Modern business is complex and also requires personality for its conduct. It is a practical paradox which each business must solve in its own way.

By way of illustrating my point, which I admit to be a difficult one, I venture to reprint here some long extracts from a pamphlet which I have written elsewhere for a wholly practical purpose.† There is here no psychological complication and no argument. Perhaps its brevity and plainness will demonstrate the chief features of a complicated problem better than a longer and more skilled economic dissertation. In this sketch, an organisation on a small scale is depicted, where the whole duties of employment or management are to some extent relegated to three chief functional entities :

- (a) A board of directors.
- (b) A general manager.
- (c) The various heads of departments.

* I may be well asked, What is a "skeleton group"? I may explain by an illustration. Suppose a small circle to be drawn, within which 485 dots shall be indicated in black ink and 15 points, irregularly placed, in red ink. The suggestion is that there are special organic relations within the mass between the red dots, which would make any one of them removable and replaceable with difficulty, while the identity of the black dots is indifferent. The system of red dots would be a "skeleton group."

† By kind permission of the Modern Business Institute, Ltd.

The description of the complicated relations between each, in a business of a very simple nature, has been drawn solely from the teachings of a long experience.

THE PLAN

There are certain essentials of efficient organisation in every producing enterprise. They may be classed under eight chief heads.

- (1) A useful article for sale.
 - (a) It must be of good design.
 - (b) It must have good selling conditions.
- (2) A properly organised company.
- (3) There must be sufficient capital for—
 - (a) Building and equipping a good plant.
 - (b) Carrying ample stocks for sale and in reserve.
 - (c) Financing short and long credits for customers.
 - (d) Providing reserves for unexpected contingencies.
- (4) A well-defined business policy in—
 - (a) Control of business.
 - (b) Perfecting the design.
 - (c) Perfecting the manufacture.
- (5) A suitable factory and well-designed plant.
- (6) A capable manager with a loyal and efficient staff.
- (7) A trained accountant's department to provide—
 - (a) Accurate accounts.
 - (b) Business statistics.
 - (c) Financial forecasts.
- (8) An efficient selling force and advertising experts.

A USEFUL ARTICLE

The first essential is a useful article for manufacture and for sale. It is hardly necessary to attempt to prove this statement. In order to engage in a manufacturing enterprise we must possess the right to do so and we must have something useful to manufacture. There are several features of ownership and usefulness, however, that need to be considered.

The article produced must possess some inherent attributes of merit. Among these, its superior quality or its high efficiency may cause it to stand pre-eminent. It must, in any case, be useful to some degree, otherwise its demand can only be artificially stimulated, and will, at best, be ephemeral.

There are other considerations bearing on its usefulness which either enhance, or impair, its chance of successful sale, according to the intelligence with which they are recognised and treated by the Company. Sometimes an article does not appear to meet with public favour sufficiently to pay the Company that manufactures it ; yet, later, under a new policy of administration, a great demand may be created for it by some small change of increased adaptability. An intimate knowledge by the Company of its own product, particularly of its defects and weaknesses, is necessary in order that the limitations of the product may be recognised, admitted to their own inner consciousness and, if possible, overcome.

A GOOD SELLING ARTICLE

An antecedent necessity of the business of manufacture is that the demand for its products should be fairly brisk at the beginning of its career. It is no less necessary that the demand should continue. To secure this result there should be some kind of monopoly, either natural, legal, or otherwise. It will be natural if the company controls sure supplies of some raw material limited in amount. It will be legal if the manufacture be controlled by patents or copyrights, or by some long contracts with inventors or specially able experts. The "other-wise" is the real difficulty. The Company must then depend on making a virtual monopoly for itself, which it can do for its product in three ways :

(1) By making a speciality and protecting it with a trade mark, and enhancing its value by extensive advertising.

(2) By superb workmanship at a moderate cost.

(3) By placing its products on the market with greater skill and with greater persistence than its rivals.

Of all these methods the last is the best and gives the most enduring results ; in fact, it may be said that some application of the latter method is necessary to make either of the earlier methods a complete success. Even the most valuable patents need to be exploited by good selling and the wise exposition of their merits to the public all the time.

If the new enterprise relies for success on valuable new patents, the proprietors must be very sure of three things : that they really own the patents with a sufficiently long title ; that the patents are sound and cover all the points that they are supposed to protect ; that the Company possesses sufficient

resources to fight for the validity of its patents and protect them from infringement. Just how much that may be no one knows until he tries.

One thing may be taken for granted, that is, good selling without patents is more profitable than good patents with bad selling.

A PROPERLY ORGANISED COMPANY

The second essential is a properly organised Company. It is not so long ago that business was, as a rule, conducted by individuals, partnerships, or incorporated companies. The growth of industry has brought most businesses into the hands of limited liability companies. Partnerships rule chiefly with professional people and private companies are only concerned with small family firms. It is substantially universal practice for all companies asking for public subscription of capital to take the limited liability form. Its advantages are principally as follow : security from individual liability for share of losses in the conduct of the business ; perpetuity for the life of the enterprise ; facility in transferring individual holdings by sale or bequest ; facility for obtaining additional capital in order to extend operations ; and centralisation of control. Add to these direct advantages the indirect ones that every one who deals with the company should know all about its identity and its resources ; its credit, therefore, is firm for what it is worth.

SUFFICIENT CAPITAL

At first sight this seems a simple proposition. The contrary is the case. It is often supposed that capital sufficient to build and equip a factory about meets the usual needs. Sometimes the promoter, in organising a new company, puts down a small sum for working capital in order to satisfy the conventions of the situation ; but it is not a matter that he always worries about. I have myself had to take charge of an old business where the proprietors had just divided up the working capital of the concern as being surplus assets.

Besides equipping the factory and plant, a new trading concern should have liquid assets in order to be able to carry over surplus stocks from one season to another ; to give long credits, especially in doing business abroad ; and, finally, to assure reserves against unforeseen contingencies. There are very few new enterprises which really make all these provisions, and

the consequent infantile mortality among companies is often ascribed to bad luck.

When the project has been launched there soon begins an impatience for returns, which rarely materialise as rapidly as is desired. If, as is possible, unexpected disappointments follow, entailing delay and necessitating further capital expenditures dissatisfaction invariably develops. This sometimes exhausts the patience of the original investors and frequently brings disaster. If there is uncalled capital in reserve, a call may be made for a second supply, but care must be taken that the amount specified be ample, so that the necessity for making a third application may be avoided.

After the enterprise is started, those who have invested their capital in it should be kept in close touch with every move in its development, so that their confidence may be sustained and, if possible, strengthened.

A WELL-DEFINED BUSINESS POLICY

A well-defined business policy is the fourth essential in an industrial enterprise, and this can be secured only by the election of a competent Board of Directors. By "competent" is meant a board sufficiently intelligent to originate a policy, and sufficiently patient to follow out its administration with sympathetic interest and approval. Any modifications of that policy suggested by the General Manager or the Executive Committee, if there is one, should be minutely scrutinised and, whenever possible, confirmed.

After the board has promulgated a policy, and laid down its broad lines, it is necessary that it should meet frequently. Whenever a board meets less often than once a month, it is either not doing its plain duty or it writes itself off as an active factor and deserves to receive only nominal fees. It cannot blame its manager for occasionally taking important steps, involving, perhaps, a change of policy, without consulting them. After that has happened once or twice they have practically lost control of affairs.

What the general manager especially needs, as an inspiration for continued exertion, is encouragement; and there is no way in which this can be realised more effectively than through a spirit of helpfulness on the part of his board. This can only be done when there are frequent opportunities of hearing his views and giving him their approval or intelligent criticism.

It is all-important how this criticism is tendered. The manager must feel that it is genuinely original from his own directors, inspired by their wide experience as men of the world, and in no way a mere echo of tittle-tattle in his own office. Nothing will so upset his confidence in them, and his reliance in the value of their judgment, as the belief that they are beginning to listen to opinions from his own subordinates. It must lead very soon to his own resignation if he is a man of any worth.

On the other hand, the board is bound to give a fair hearing to any tangible information which is unfavourable to the management. But it has to be dealt with in serious fashion, with full warning to the manager himself, and always at the earliest available meeting of the board. In no other way can the absolute confidence in the manager be sustained, which is essential to the success of the enterprise.

GENERAL CONTROL BY THE BOARD

Although nearly all the executive work of the company is necessarily in the hands of the general manager, and subject to his initiative, there are certain matters of great importance, in a company doing large business, with which the directors may legitimately concern themselves. Among these the primary one is finance. These powers are generally exercised through committees.

A finance committee will keep its attention closely fixed on the resources of the company and report on any approaching deficit, and on the best way of raising fresh capital if required. As that is rather an extreme measure, the more immediate questions of temporary credit will occupy them more. If there is a banker on the board he will generally be asked to act as chairman of the committee, although it may well be an invidious position for him, particularly if his firm be also bankers to the company. He might conceivably be forced into the position of being unable to serve the interests both of his bank and of his committee and board.

An executive committee is generally a confession of weakness, or laziness, on the part of the board as a whole. As an emergency measure it may be tolerated, in order that the manager may be able to secure more frequent advice and confirmation of special steps than he can get from the monthly meeting of the board. He may thus be able to get the special

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attention and support of the stronger men of his board for some bold policy, which otherwise he might have a great deal of trouble in persuading the board, as a whole, to do. Speaking generally, an executive committee is a reflection on the manager.

Special committees on freight questions, on tariff or exchange difficulties, are very usefully appointed in order to employ the expert assistance of various members of the board without dragging all these thorny and lengthy matters out before a full meeting. Attendance at board meetings is apt to slack off if the general business is complicated with too much detail, and the manager will often wisely ask for special help in this respect.

PERFECTION IN DESIGN OF PRODUCT

There is always some danger that a manager may see his product through too favourable eyes. He is in danger of falling into a routine and becoming restive under criticism. There is no subject in which the board may so legitimately take a continuous interest as the perfection of their product. On this special point, they must accustom their manager to perpetual questions, so that every member may, in time, himself become an expert on the subject, and thus his opinion will be of some worth. Besides, there are some products, newspapers, or theatres, or hotels, where every member of the public has some sort of opinion, and a board can faithfully reflect their views with some added knowledge from inside.

In the case of a manufactured product the board can stimulate the manager to avail himself of all inside and outside help ; can bring forward disparaging comparisons of the company's goods as inferior to those of rival firms, which he would have a right to resent from any one else, and can generally see that he does not too easily satisfy himself with half perfection.

PERFECTION IN MANUFACTURE

Perfection of method means not only improved product but increased economy in manufacture. Here the board is specially on its own ground. The manager must not be allowed to grow complacent with his own methods. One chief source of improvement in economy and perfection comes from departmental advice and suggestions. Some kinds of manager are

very averse to take help of this kind from below ; on this point the board must be tireless and unwavering. The " suggestion system " has now become well enough known in this country to be an established method which no manager can resent ; but it is essential for the board to see that it is freely used by employees and regularly attended to by the heads of departments. The highly skilled operative sees more of his own process than any one else, and if his suggestions are not accepted and rewarded he will carry them elsewhere.

There is much difficulty sometimes in getting sympathetic support for the suggestion system, not only from the manager but also from the foremen all through the works. But the firm must be loyally served in this, or there should be a change at the very top. What is more, there ought to be some friendly interchange of knowledge between the works and the selling department. The latter is the link between the producer and the consumer. It should know well what can, or what cannot, be done.

A CAPABLE MANAGER AND LOYAL STAFF

For most purposes these two features of the organisation should be regarded as one. In a new concern the manager will naturally choose his own staff ; there should be no interference with him by the directors in this respect ; favourites of the board can do deadly harm, and no manager worth his salt would tolerate them. With a new manager and old staff smooth running must come in time or the head will have to go. It is a bad sign if a new head begins to part with old lieutenants quickly, unless, indeed, he has been specially appointed with the intention of renewing the personnel of an old and backward firm.

So important is the position of a general manager, that his independence has been indicated negatively in enumerating the functions of a good board. It has been already laid down that their control over his conduct of the business should be only of the most general nature in specified directions. So great have become the responsibilities, and so intricate the details of individual industrial management, that the latter has become a skilled profession. Those who are engaged in it have to study its rules and practice in order to become experts. An able manager, who has fought his way through to his position, is probably a better man singly than any member of his

board. If there be a better man on it, that man will probably be the one to give him the heartiest support.

It is a fundamental principle of business practice that a board of directors should act only as a body and through its executive officer, the general manager. He should have authority if he is to carry responsibility. It is his business to place before his board regular statements of the actual conditions of the concern, together with his recommendations for their approval and, in special matters, for their decision.

To know when to interfere with, or override, a manager is a very skilled and delicate affair and requires great experience. The board, as a whole, likes to support its manager and protect him from unfair attacks of individuals. When the board has expressed its approval of a policy, with due comments and rarely with explicit instructions, which a foreseeing manager sometimes asks for, it is the manager's duty to execute them loyally in his own way. If he cannot do so in accordance with his own better judgment he must resign his position. His responsibility to the shareholders, although not so direct, is equal to that of the board.

The manager's staff will take their colour from him. His attitude to the board will be theirs ; the heads of departments will preserve their local independence in the same way that he preserves his, with this one important exception—they may legitimately take orders from him to carry out what they themselves disapprove, because the responsibility is fully his and not theirs. Their loyalty to him will very largely depend on the way he handles them in this, since he ought to recognise that the hardest thing in the world to do is to carry out a policy that one believes to be wrong in such a way as to give it every chance of success.

The control of the clerical and labour staffs is largely a problem of judicious delegation to departmental heads and foremen. The manager must, on the whole, leave control to his subordinate officers, deciding disputes, settling flat rates of wages, and providing accommodation. He will be wise also to accept their recommendations for all small executive posts, fixing only the salaries, which are a branch of finance.

DEPARTMENTS

Almost every business, in this country at any rate, has some notable differences in organisation from all other kinds.

Naturally they run in groups, such as textiles, engineering, hardware, letterpress printing, and the vast mercantile, wholesale and retail houses. The following may stand as a model for a manufacturing plant, using supplies of simple materials and making staple products. The six departments are subject to endless modifications.

(1) The manager's personal staff is concerned with administration and with carrying out directly all he would personally do if he had the time. There is one important exception to this maxim : his staff should not attempt any over-looking or stand between the manager and his own heads. If they have any information to convey about the departments they must use it with discretion, and he, on the other hand, would be wise to verify all that comes to him in this way, so that he can speak of it as having come under his personal observation. The special duties of the staff are to help him to buy raw materials and to fix prices for the product.

(2) The financial department, or the cashier's desk. The cashier takes all payments and reports on daily resources. He oversees all out-goings. He often has some superintendence over conduct and the discipline of the junior staff, since he pays salaries.

(3) The engineer's, or planning, department has a large or small job, according to the size of the firm and the character of its product.

(4) The manufacturing department is one of the most important of all, because here is where a profit or loss is made ; here is where labour is handled ; here is where waste is saved or increased. It asks imperiously for more buildings, better plant, better material, and advancing salaries and wages.

(5) The accountant's department and (6) the sales department require more special treatment because, unlike the manufacturing end of the enterprise, which has to be organised differently with the varying product, they represent eternal principles of exchange and industry, which are often forgotten.

THE ACCOUNTING SYSTEM

In old English firms the cashier had control of all the accounts and the manager had all the statistics in his head or on the backs of envelopes. A modern accounting system is the judgment day in hourly evidence. It ought to be able to get

any important fact about the business on paper during the course of a board meeting. It must be independent of the manager in providing accounts that cannot be questioned or gainsaid. It must support him in presenting him with the costs of everything in the factory, particularly of the use of tools and the handling of material, and by keeping accurate comparative tables of departmental profit and expenditure, and, lastly, by giving him the material for reasonable forecasts.

THE SALES DEPARTMENT

Contrary to what is generally supposed, here we have the real centre of the business. Almost everything else can be learnt and standardised. Costs are really absolute, in the sense that the maximum effort can only bring them near to a minimum on a fixed demand. Any failure in demand means raising costs all along the line. Every mill-owner knows that to run his mill for one hour more a day means a fortune. The man who brings in the orders runs the mill.

The same round fact is true of all businesses, particularly in the fancy trades, where costs and corresponding prices are calculated on a moderate output. As for specialities, since they are virtual monopolies, there is an enormous field for extra profit on increased sales. The efficient organisation of a sales force is a prime necessity of industry and commerce.

Side by side with salesmanship is the problem of advertising, which is an industry in itself and must be studied on its own basis. The right amount of expenditure on advertising, both absolutely and in relation to the cost of salesmen, differs in different businesses, and is also a matter of controversy. A very good opinion places the desirable proportion of expenditure on advertising and on the sales department as being between 1 : 2 and 1 : 3 in placing a well-known commodity on the market. That one must be used to reinforce the other is universally agreed.

For most firms it is well for the manager to bring up the above question specifically before the board and obtain an appropriation for advertising in some fixed relation to the cost of his selling staff. For public advertising he may either leave the allotted amount to be spent directly by his own department or seek the advice of professional specialists. Unless he has very special experience of his own the latter will probably be the better course.

The selling force of any considerable firm must be organised from inside ; they should deal in nothing else but their product and think of nothing else ; no career requires so much concentration of purpose to get the best results. Salesmanship is being rapidly reduced to a science. Given soundness in brain, character and health, the rest is a matter of right instruction and persistent hard work. The devotion to their own product, which all good salesmen learn, will react on the internal organisation of the business. They will come back to the producing full of enthusiasm for its work and full of criticism for its shortcomings ; they will worry for all the possible improvements and for a few impossible ones ; they will instil the spirit of co-operation into the whole organisation.

CO-OPERATION

One of the most tiresome and discouraging duties in any business is the collection of overdue accounts. Co-operation between the information net of the sales department and the collection of the finance department is very valuable for the efficiency of both sections, and one can often help the other. The salesman can give the collector the benefit of his special knowledge and of his sympathetic point of view, thus preventing undue pressure on a willing, but temporarily embarrassed, customer. The information conveyed by the salesmen to the manufacturing end is quite indispensable, both as regards the profit itself and of the advent and improvements of rival products. The more the working organisation knows about the business the more intelligently it will act in every situation where its interests are involved.

CONCLUSION

There is one essential consideration apparent from the foregoing sketch, which is the reason for my reprinting it without substantial alteration. It is assumed that, in nine cases out of ten, probably even more often than those figures, the capital necessary for the enterprise will be found outside the company. One or two members of the board will represent, perhaps, important interests, but their weight in the counsels of management will undoubtedly soon fall to the level of their abilities. They will, in fact, in so far as they appear to repre-

sent capital and not capacity, start with that handicap. Somewhere in the group the effective and instructive critic will be drawn forward by circumstances, and his control over the management will depend on the time and attention he can devote to the particular business of the company and the relation he will establish with the general manager. Similarly, within the business ability will slowly be allowed or be forced to assert itself, and always power will gravitate towards that section of the business which is most closely in touch with the buying public. Demand must govern successful industry. Business is essentially the close study of Values.

Besides those occupying the great consultative and executive positions, all the heads of departments, and the rising workmen, should have their opportunity of asserting their validity. Everywhere there should lie the hope of finding the true leader, the man of accomplishment. The net must be spread very wide to catch him. Jealousies of others, weakness of character in himself, sometimes a waywardness, which is not really a weakness but a symbol of wider aims, will prevent his gaining any material control over the business, whose prosperity he is inspiring. He is the true aristocrat of industry.

By an extension of the illustration of a managing group within a business, I suggest that there exist also employing groups within industry in general. These groups are skeleton groups, such as I have described above. Within all these groups there are potential and actual leaders, whose influence rises, becomes dominant for a time and gradually fades away with failing human powers. It is not difficult to find frequent examples of this character in English politics, such as Francis Place in the Reform party and Lord George Bentinck in the landed interest; in the Scotch Church, Norman Macleod; in the cause of Irish freedom, Charles Parnell.

CHAPTER V

THE STATE AND INSURANCE

I gae'd to spend a week in Fife,
An unco week it proved to be.

GEORGE OUTRAM: *The Widow.*

THE question whether the State should begin to assume the fragmentary and progressive control of industry, as an employer, by heavy taxation amounting to partial expropriation, has become highly controversial in a comparatively short space of time. While it is not difficult for any of us to have a definite and assured opinion on an issue, for which so much ascertained and reliable material already exists, it has already become quite out of the question to attempt to pronounce any views on it at all shortly, while avowedly considering economic problems of a different order.

It is necessary, however, to point out briefly that, in my opinion, there is no body of economic evidence leading us to suppose that the State is more fitted now to become a general employer, or even a large shareholder in commerce and industry, for both tasks would devolve upon it together, than at any time in the last 100 years. There is no natural progression in this direction. The tendency of all kinds of business to become more complicated, and of technicalities to become more refined in nature, is not an encouragement towards State ownership, but the contrary. All the bodies of men, who have the special knowledge of the great co-ordinating machinery of commerce, are of one mind in resisting the change and prophesying disaster. High hopes and inexperienced confidence are no substitute for expert training in the technicalities of exchange.

The most recent experience acquired by the professional machinery of the State has been rather in the opposite direction of committing itself to a form of individualist enterprise which will compromise its future more and more in anti-socialist obligations. Insurance is a financial invention of the most individualist character. It is a pooling of special risks, whereby each man, by voluntarily undergoing the obligations of a routine financial contract, at the end of a definite period emerges again with his full individual freedom and in command of resources which, as a single man, he would not probably have been able to command for himself.

So adaptable has this wonderful instrument become that the State has already found itself enmeshed in its scientific complications from which it cannot honourably escape without elaborate efforts and possible enormous losses. The State is committed to insurance in health and employment without reserve, and in various fields to a lesser extent.

Insurance has already become a barrier against the social extinction of the rich. A great millionaire's estate would vanish in three short lives if insurance did not give it the possibility of some kind of continuity. The special experiences of the rich, which are by no means only those of enjoyment, need not be immediately wiped out of certain highly trained families, nor the valuable educated talents for reserving enjoyment and modulating the exercise of power, be for ever discouraged out of existence.

In this connection, my friend, Mr. H. D. O'Neill, has kindly given me permission to quote, at some length, from a short pamphlet of his, written for a special purpose, which so much coincides with my own views, that I should make a mistake in attempting to paraphrase it and I should also lose the authority of his expert knowledge.

"There is a psychological aspect of life insurance which cannot be ignored. The continued prosperity of every community depends, in the last resort, upon the amount of money saved by the individuals composing it. If, year after year,

every person in a given community spent every penny of his income, it is to be supposed that that community would gradually perish, for only out of savings can new capital be accumulated, and only out of new capital can worn-out capital be replaced, the walls and floors of factories, the spindles, the looms, the ships, the pitshafts, and all that existing capital implies.

“Such is human nature that mankind, with few exceptions, leans towards generous, rather than prudent, habits, and does not save without incentive ; most of us, indeed, have almost to trick ourselves into saving.

“And that is where the life insurance policy comes in. Once it be effected, a man is apt to regard the renewal premiums as being inevitable payments, like his rent, rates, and taxes. He grumbles, but he pays. It does not matter much to the community whether the payment be for one form of insurance or another. Every premium paid is so much money saved ; so much addition to the capital store. It is for that reason that the nation encourages life insurance by granting certain valuable rebates from income tax in respect of the premiums which are paid.

“It is also on that ground that the selling cost of life insurance is so abundantly justified. Without such propaganda there would be little insurance. The thousands of agents who advocate insurance are well worth their salt in the community. That one or two offices out of the number manage to get sufficient business without employing agents does not affect the point. If a hundred stalls in a market-place are brilliantly lighted with petroleum flares, it may be quite possible for one or two economical souls to carry on fairly well without lighting their own stalls. They should not, however, urge that it is unnecessary and undesirable to light stalls at all.

“Life insurance is likely to develop very greatly in England in the near future. It is not only that the average business man in this country still carries far less life insurance than his contemporaries in the United States of America, but new

forms of insurance are becoming popular. 'Group insurance' is an instance of this, where an employer can arrange for a policy covering all his employees for a given death benefit; as people go into or out of his employment so they go into or out of the policy. No medical examination is required, the lives being just taken *en masse* at a certain rate per head.

"The secret here lies in the word 'selection.' The 'Group' must be one which was originally brought together for some purpose other than life insurance; originally selected, that is to say, as good mill hands or reliable clerks; not selected, nor selecting themselves, as people glad to be able to secure life insurance without examination by a doctor. That being so, they approximate to the general population, and their premiums can be safely based on a general population mortality table; as a rule, very safely indeed, in fact, unless a very hazardous occupation is involved, for the 'Group' insurance class are all people in full work, whereas the numbers included in the general population observation, of course, include numerous invalids."

It seems to me quite improbable that a vast system of this character, already automatically providing capital of a highly democratic nature, can be easily and ruthlessly destroyed. It is no less unlikely that a healthy and rapidly spreading tendency will be reversed, even if a new form of State should arise, which might not hesitate to use force to support its prejudices against insurance, or would endeavour to escape by every subterfuge from the obligations already incurred.

The relations of insurance funds to accumulated capital have not been properly worked out. The great annual increments of insurance premiums constitute a forced buying market for investments which has never been paralleled in any previous economic situation to anything like the same extent. They afford the only large blocks of ready and recurring capital, whose supply is assured for long periods of time; which cannot refuse or delay investment; which cannot easily run away to outside fancy investments; which, above all,

will, in the end, constitute a great voting power. They stand, at present, as the most solid personification of democratic capital on a great scale. A new socialist State would find them as formidable rivals already in the field of democratic finance.

The repercussive effect of their obligations to fulfil long term contracts for payment and repayment will come to have a vital influence on all questions of the inflation of currency. Above all, the British insurance world is one which must stand or fall together; its commitments to life, fire, marine and accident risks are already international. It represents our international credit with the world as fully, and perhaps more permanently, than banking.

The State is not essentially a banking institution, but it is *de facto* an insurance institution. The money-issuing powers of the State constitute a perpetual temptation for a particular form of government to back the cause of the debtor against the creditor, but in insurance the State has no interest save in honour. No party cabinet can make an electoral cry out of the prospect of giving a man back rotten straw in return for his good bricks.

Insurance is the fundamental task of the ancient and modern State. Insurance against private feuds and private war, against famine and foreign invasion, was imposed compulsorily on early communities. Insurance against every kind of active commercial risk is now voluntarily estimated, and its cost regularly paid for by our modern system, for all those members of the community who have learned to acquire, and value, an individual status. Insurance against other common risks is imposed with virtually compulsory force, either by the State or by semi-public bodies like trade unions, on the masses of men who cannot themselves take thought for the morrow.

During the useful experience of the last few years we have seen the Governments of Europe, predominantly executive in character, become, under pressure, deeply involved debtor States, and, being in self-protection compelled to take sides with all debtors, begin virtually to alter all long-term contracts,

then short-term contracts, and, in some cases, to arrive at the point of actual confiscation of all property within reach. There is never much property within reach, which prevents the process becoming a profitable system. The injunction to "Take thy pen and write fifty" can only be carried out a limited number of times.

Out of the ruins of the debtor State it seems possible, at first sight, to construct a Pharaonic, or creditor, State. That appearance, however, is illusory, because the State, arriving at this position by getting into debt, has no command over any large quantity of exchangeable property to lend to its own subjects. Such a State would have rapidly deteriorating factories and plant, still more rapidly devaluating currency, and, finally, a body of workers endowed with the serious psychological disability of always expecting a larger share of the produce of industry than they will individually earn. Then must begin a weary round of long, long hours, poor returns, perpetual discontent, and, finally, regulations of a minutely tyrannical order which are obeyed only so long as they have to be.

The insurance State, on the contrary, which honourably links up its own existence with the highest form of developed commercial long-term credit devised by man, is logically fulfilling the end of all good government; the maintenance of even-handed justice between the voluntary obligations of its most capable members; foresight for the least efficient against occasional and unavoidable buffets from the wheels of swaying fortune; and, finally, the obligation to maintain at the highest point of efficiency that commercial credit, which is not only its own official credit, but also the sum of the several and the mass of the individual credits of each of its own members. The perfected system will ultimately complete the democratisation of capital. Each of us will be taught to watch our own funds bearing fruit in the hands of our neighbours, while they, in turn, are similarly supervising their own interest in our share in the common work.

CHAPTER VI

SELF-VALUATIONS

Monsieur Cardinal, il n'aimait pas l'ironie.

LUDOVIC HALÉVY.

WHAT is chiefly needed in economics, the most serious of all human subjects, is plain speaking, avoiding flattery, blame, or irony. Every class in the community, which has arrived at predominance in political power, is bound to receive much flattery, and acquires very rapidly the inability to listen to any other form of address. The masters of mankind receive the truth only in homœopathic doses or by experience. They can acquire the unflattering truth for themselves only by suspicious study.

Many years ago I read, in some economic work whose name I have willingly forgotten, the deadly half-truth that that man makes the best of any bargain who overvalues his own contribution to it. What situation arises when both sides to a bargain consistently overvalue their respective shares? The method of settlement remains that I have intimated in the sketch of economic stages of progress: Elimination. The contest resolves itself, then, into one of endurance.

Whenever one of the parties in the joint work of industry has a natural advantage it wins in the contest of endurance but not of right. When the landed interest of Great Britain and Ireland held a strangle-hold on all economic and political life they imposed a domination, picturesque in itself, which has led to the stifling of intellectual force in the nation, whose effects are still noticeable. After the industrial, commercial and political supremacy was wrested from them by a race of capitalist-employers, the most efficient of whom arose from

the ranks of the workers themselves, the community suffered from the exploitations of the "economic man." The power of superior bargaining, reinforced by democratic political approval, now resides with the great masses of labour, who have arrived at this position of advantage by patient and able organisation since the penal anti-combination laws were abolished by the skilful manœuvring of Francis Place in 1837. Are they now overvaluing their contribution to the joint work of industrial production? In my humble opinion they are.

Not that they are alone in doing so. All the possessors of natural advantages are relaxing no whit of their demands whenever opportunities for exacting rents, and royalties, and wayleaves occur.

Prescriptive rights of all kinds still make their maximum demands as before. Capital, so far as it is conscious, is not more humble than it was, but it has begun to be more skilfully impersonal and evasive. The employing class, leaving staid and sure industry a little on one side, tends to launch out more and more in speculative directions. The exchanging and professional classes charge what commissions and fees they can on the smaller volume of business which passes through their hands. The organised bodies of Labour control the great stream of industry more potently than any other group in the community by refusing their participation in production except on their own terms.

Let us examine the effects of this new form of domination, for it is not altogether without the subtle pleasures of dominion. It is certainly the fruit of great unconscious instincts and impulses developed by striking political and commercial victories.

To begin with, we must allow some time for this feeling of conscious victory to pass. The advance has been fine and sober. The great results of solid increments of power have not yet been intemperately misused. The process of elimination of co-operation has now been developed to almost its maximum

extent by Labour without bringing about a revolution or a wholesale destruction of fixed wealth.

Nevertheless, all that may be said in praise of the personal use of the victory must not be interpreted one whit as commendation of the wisdom of the policy of elimination, regarded as a permanent method of industrial bargaining. About many a single strike a good case may be made out for an advantage gained by the union, permanent or temporary, by which it was organised. Certainly, at a time of rising prices, increase of wages comes all along the line more quickly by the refusal of co-operation by workmen, and many useful reminders of the necessary partnership of all the parties in production have thus been given. It is doubtful whether the ultimate gain has been a positive quantity throughout all the up and down fluctuations of trade. All the information available has been obtained only from one side. The general case has been held to be proved by the steady advance in wages, nominal and real, throughout the latter half of the nineteenth century. Yet, has it been proved that the general advance in wages has been commensurate with the real growth of productive power during the same period? I take leave to doubt it.

The only possible proof of a widely stated case of this kind would be to set two enormous modern communities working side by side under opposite policies for advancing wages.

Philosophically speaking, the advantage to be gained by a bargainer is obtainable only from some monopoly, or from some presumed stress of his co-operator. A real monopoly in land can raise rents rapidly by combination, but whether there is thus a net gain during the whole duration of a monopoly has not been proved.

In America, where the experience of handling monopolies of all the kinds has been extensive, experience tends to show that the maximum net reward on a monopoly was always obtained along the line of some price which would secure the maximum demand.

What is, however, quite clear is that, under monopoly con-

ditions, a high rent to one landowner does not militate against a high rate being procured by another landowner under similar circumstances. So, also, an abstraction of capital from a given industry does not prevent the profits of another batch of capital being obtained in that industry provided the conditions remain good. In fact, the chances of the latter are increased by the withdrawal of the former.

The withdrawal of labour, however, even under the freest conditions, cannot fail to diminish the total output to a large extent and thereby to raise the cost of exchange and to un-stabilise the selling conditions of the trade. It is probable that the withdrawal of working co-operation by wage-earners comes to be almost completely in effect the withdrawal of co-operation with another set of wage-earners elsewhere.

Strikes of workmen are strikes against workmen. So long as trade goes on at all, and civilisation endures, there is little comparative harm done during trade disputes to the great middle exchanging class. Individuals here and there suffer by the curtailment of the volume of trade, but other exchangers make higher profits. They are, paradoxically as it may sound, the employed class; if they are not paid enough for their services, they also, severally and individually, withdraw their capital and services.

Without the formality of a strike, and even with very little protest, they suffer their losses, once for all, and go out of business. It is to the highest interest of the workmen to have a large exchanging class busily engaged in making very frequent and very small profits, tending thus to bring ultimate prices to the bulk of the people as nearly as possible down to the level of the wages earned by the people. I use the word "people" as Abraham Lincoln used it.

The most current fallacy in economics, reflected in political literature, fostered by the Press, and almost universally prevalent in popular prejudice, is that there is "somewhere" a large middle-class fund, drafts on which can be indefinitely drawn in order to raise wages. It is not surprising that the

feeling, for it is not a reasoned or well-informed opinion, should be remarkably widespread, where many of the exchanging class, bewildered by the complications of business, untaught by scientific men, unaccustomed to reason about realities, themselves share the view of their own uselessness and quasi-criminal behaviour.

It is the function of the study of Value to ascertain the causes of this fallacy, to correct these mistaken impressions, which are doing incredible harm, not so much to the middle-class themselves, as to the general community, and precisely to those classes, who, by their numbers and voting power, are in the position to make the greatest mistakes and suffer chiefly by the result of these mistakes themselves.

Self-valuations include class-valuations, each of their own services. If it be true that Labour is the predominant partner in industry, as it has come near to be by its acquired bargaining power, reinforced by the popular sympathy which gives also political power, the right estimation or imputation of the Value of its own share in production is vitally necessary to its own prosperity. This true imputation implies the proper understanding of the share in the joint product of industry, contributed also by the other factors of production.

Should the mass of wage-earning men and women exaggerate the Value of their own share, or, to put it, perhaps, in a better way, should the relative Value of their own share in the work of production be really as high as their most sanguine sensible leaders claim for them, the responsibility is thrown on them not to make gross political and economic errors by undervaluing and underpaying the selling and exchanging organisation, whose function it is to complete the work of production by eliciting and creating the ordinary Values of commerce.

The economic imputation of the separate shares of Land, as it is called, and Capital is difficult in our present stage of transition. It is possible that the former holders of privileged positions, identified in old countries with the landed interest, may, before long, be disentangled from any specific share in

production through the out and out purchase of their interests by agriculture and industry, as represented by a new employing class. At present, by lettings and long leases, landowners hold firmly on to their stake in the country, supported by the ambitions to join them of the former capitalist-employer class. The capitalist-employer class is itself on the way to resigning its aristocratic ambitions, and holders of realised wealth will be more and more content to become comfortably anonymous and to divide their risks.

The new *entrepreneur* class, by no means all employers of labour, have come gradually to separate themselves from the capitalist group, a change which is bound to be progressive. This point is very happily illustrated by Mr. Keynes,* who refers to them indifferently in the same paragraph as "the active group" and as "the borrowers of money (who make the decisions which set production in motion)"; a double description of them, which constitutes the most effective definition of their character and functions that I have met.

The active group undertaking the risk and management of industry is at present obliged to take care of two mutually inextricable tasks. The group branches off into the faculties, who exercise the distinct functions of manufacturing and merchandising commodities.

In the manufacturing end the active group has largely put itself in the hands of a professional class, such as I have already described in detail. This class has a tendency to coalesce in very big firms.

On the merchandising side, however, a different, perhaps hardly an opposite tendency is observable. Selling organisations tend to lengthen out into a long chain of numerous links of specialists, who hand the various stages of the product from process to process of marketing and from locality to locality.

In the use of capital, supplied from impersonal sources, a very different policy is pursued by the active group in its two sections. The manufacturing end uses diminishing proportions

* "A Tract on Monetary Reform," p. 33.

of capital in relation to gross product, owing to the enormous economies effected by modern mass production. The merchandising end, however, continues to require very large sums of capital in order to handle the vast bulk thrown upon its selling resources by a prodigality of output, which it has a tendency secretly to deplore. I cannot ascertain whether the proportion of capital required in merchandising a given product to the value of the goods handled is increasing or not under normal conditions. Evidently, however, it is not decreasing to a similar extent with the amount of capital required to manufacture the same bulk of product.

There is one certain fact, however, that the capital required in the handling and marketing process varies with the net or gross cost of the goods handled. Each link in the chain holds a place in the line through which passes the gradually increasing value of a given parcel of a given commodity. Near the manufacturing end the value of the product approximates to net cost; near the customer's end it has the increments bringing it up approximately to the retail price.

Any great increase in cost of material, any all round rise of wages require an inevitable increase in the capital requisite and available to handle the same parcel at approximately the same handling cost. If there is no increase of capital available for this purpose the links become more inefficient and some of them drop out. The remaining links recoup themselves by higher charges for their increased burden and often find the further opportunity of acquiring monopoly profits. The monopoly profits come to them unsolicited, by way of the increased value of stocks in their hands through the process of rising prices. The results I speak of are independent of any additional rise in prices brought about by the inflation of currency.

It is, therefore, necessary, in the interest of the wage-earner, that the added cost of the goods he makes at higher wages should be handled by a proportionate increase of exchanging capital. Otherwise there come to him the repercussion of lost trade, which means unemployment, and the

repercussion of higher prices, which diminish the amount of his real wages.

Unfortunately, for trade in general, and in this country in particular, any peculiar stress involving drainage of capital is apt to draw it away first from the exchanging functions of trade. No economies in the use of capital in manufacture will compensate for the increased cost caused by the loss of exchange capital. If, at the same time, a general rise in wages and in the cost of raw materials take place, more exchange capital will be required than before, just at the time when the original stock had suffered depletion. A further depletion of capital will be taking more blood away from the exhausted beast of burden.

The self-valuation of the exchanger, even if he be a successful profiteer, is not so high as is commonly supposed. His sudden profits have come to him, as he knows in many cases, at the expense of his neighbours. His unpopularity is patent, and his extravagance has been exaggerated in proportion to the general poverty. Mr. Keynes says, very justly, that the able business man, finding himself in that position, with his profits hugely exaggerated by inflation of prices, begins to doubt his own trained judgment and conservative instincts. "In his heart he loses his former self-confidence in his relation to society, in his utility and necessity in the economic scheme."

Against these unsatisfactory advantages, which are often themselves transient, must be set many losses of which one never hears.

The psychological view of life to the suddenly enriched man may be well studied in Dr. Jack's "Legends of Smokeover." The presentment is not, however, in any way of equal social and economic importance with that of the enlarged picture of the profiteer projected on the inflamed imagination of large masses of the people. The position of the new Dives represents the kind of change of circumstances which so many of us secretly toy with in our imagination. We like

to see him vulgarly portrayed, not from love of that kind of realism, but because we all feel flattered at our hypothetical superiority of conduct under pleasant trials of a similar kind.

There is no doubt that the fallacy of the middle-class fund suspended "somewhere," like Mahomet's coffin, is the fruit of the promptings of deep instinct rather than the result of direct observation. It arises from a conviction that a great bulk of substantial good fortune must have a real existence, like happiness. But those above say it is below and those below say it is above. Maybe that is why it happens to find itself nowadays somewhere near the middle.

The exaggeration of middle-class incomes gives some foundation for the superstition. The standards of living of the middle-class are composite; they are standards of comfort; standards of struggle; and standards of selling. A rising business man must live in open ease among the class to whom he is selling his goods or his services. Professional incomes are notoriously not net incomes. Men must meet regularly on some footing of social equality, or superiority if possible, their patients, or clients, or customers. I wonder if any Chancellor of the Exchequer is really aware of the amount of income-tax he receives annually on revenue from the apparently well-to-do classes of the State which are not really net income.

The psychological valuation, both by himself and others, of the man of insight, activity, and accomplishment, is especially the most tangled of modern problems. No longer does he come from a certain limited, greatly favoured, and highly trained class, fortified by traditions, circumscribed by the forces of public opinion, prepared by a vocation, and to some extent by a sentimental education. Nor is he the mere product of competition, as in the palmy days of the economic man, when elbows were valued as instruments for a direct advance. Our psychological prejudices are now generally too much awake to suffer the more crude kind of upstart. For the purposes of a sudden rise in fortune the equipment of a Frankenstein, or a Rabevel, would be out of date.

Dr. Hadley * would have the career of an industrial leader treated as a liberal pursuit, wherein the rewards, like those of the professions, would not be altogether of a material character. This is certainly a counsel of perfection, but I doubt if the public mind is ready for it. Economic efficiency still possesses a certain taint as far as the almost unanimous estimation of most classes in progressive countries is concerned. Metaphysical prepossessions, or obsessions, still require that the successful business man, if he make money at all, must make it in quantities ample enough, both to give himself all the comforts which the mammon of unrighteousness can afford and leave a balance for the charitable works which are necessary to redeem his soul. Intellectual appreciation, as well as emotional admiration, are equally withheld from eminence of an economic order.

In my opinion, there is something that is fundamentally wrong about the stereotyped form which is given by the general mind to this type of character, and it is time that our views should begin consciously to approximate to Dr. Hadley's suggestion. While the industrial leader is almost necessarily a man of original force, on the main lines of his own career, in private he may have also something of the simplicity of character which distinguished great men like Charles Darwin and Lister. His personality may be socially plastic, and outside his business he can easily become, in the public eye, what the public mind determines he should be. It behoves us, therefore, to improve his type by beginning to think better of him.

Self-valuation in men of this promising type is likely to vary greatly. I have known men of considerable economic validity to err by excess in this test, as well as others by self-depreciation. Some have shot up too fast, while others have remained far behind the degree of influence which the quality of their mind's character thoroughly deserved. Modesty, in fact, is not the infallible test of a great industrial captain, any

* "Economic Problems of Democracy," p. 51.

more than it has always been of a great military commander. It is curious how indifferent, in its reaction on the prospects of all kinds of success, a mistake in self-valuation may be.

Those who declare cryptically that, in the man of insight and leadership, something elemental and elusive must almost necessarily be found, are probably not far from the fact, although I do not feel myself able to elucidate that conception very clearly from the large room for uncertainty which a vague statement of the kind must leave on the mind.

It is, however, possible to indicate, less enigmatically, the direction in which the new faculty of leadership will take at the present time. We are suffering unduly from warring elements and instincts which circle round questions of justice.

These elements are not reconcilable wholly on the moral plane ; soon enough, that is to say, to avert very considerable further damage to that kind of human machinery which we call commercial and industrial organisation, already suffering from overstrain.

Nor is there any purely intellectual solution available ; because the forces of the economic world are too definitely committed by passion and tradition to an inaccurate polarisation of interests.

Leadership is required to unify human minds, which are running apart from one another, in two different categories of thought. A general spirit must arise in a group of men, distinguished both by character and intellect, who will be able to convince all of us that what is right is wise and that what is wise is right.

END OF PART TWO.

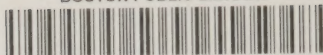
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THE PSYCHOLOGICAL THEORY OF VALUE

By George Binney Dibblee

THE present study of value is in direct sequence to an earlier work by the same author, "The Laws of Supply and Demand." In this book he analyzes the psychological and theoretical aspects of value, the price and supply, the psychology of demand, etc., and all the varying elements which influence value, such as the metaphysical, moral, subconscious, etc. Then follows a brilliant application of these theories to present-day economic life in which are traced the stages of economic progress, the four primary factors of production, etc., ending with a chapter on self-valuation.

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